Wauwatosa, WI

7725 W. North Avenue
Wauwatosa, WI 53213

Financial Affairs Committee

Meeting Agenda - Final

Tuesday, April 25, 2023 | **7:00 PM** | **Committee Room #1 and Zoom: https://servetosa.zoom.us/j/81144274572, Meeting ID: 811 4427 4572**

Regular Meeting

HYBRID MEETING INFORMATION

Members of the public may observe and participate in the meeting in-person or via Zoom at the link above. To access the Zoom meeting via phone, call 1-312-626-6799 and enter the Meeting ID.

CALL TO ORDER

ROLL CALL

FINANCIAL AFFAIRS COMMITTEE ITEMS

1.	Sustainability Committee Annual Report	23-1017
2.	Approval of State Municipal Agreement for the design of North Avenue reconstruction from 95th Street to 73rd Street	23-1025
3.	2022 Preliminary year end financial results	23-1028
4.	Review of Financial Resiliency Policy	23-1013

ADJOURNMENT

NOTICE TO PERSONS WITH A DISABILITY
Persons with a disability who need assistance to participate in this meeting should call the City Clerk's office at (414) 479-8917 or send an email to tclerk@wauwatosa.net, with as much advance notice as possible.

CITY OF WAUWATOSA
MEMORIAL CIVIC CENTER
7725 WEST NORTH AVENUE
WAUWATOSA, WI 53213
Telephone: (414) 479-8917
Fax: (414) 479-8989

Wauwatosa Sustainability Committee
Annual Report to the City for Calendar Year 2022

April 5, 2023

2022 Committee Members

Rob Zimmerman(Chair)	Seth Flanders	Steve Ostrenga
Katherine Riebe (Vice Chair)	Zoe Hastert	Christine Wolf
Mary Young (Secretary)	Rob Hoverman	Chuck Pomerenke (City Liaison, non-voting)
Mike Arney	Lynn Morgan	Ald. Melissa Dolan (Council Liaison, voting)

2022 Executive Summary

The mission of the Wauwatosa Sustainability Committee (WSC) is to champion environmentally-sound practices fostering the City's long-term livability and economic vitality. The Committee advises the Common Council and City staff on sustainability matters and collaborates with residents, businesses, and other partners to advance the City's environmental goals.

Energy and associated greenhouse gas (GHG) emissions increased slightly in Wauwatosa's city-owned facilities in 2022 but maintained most of the improvement from previous years. Highlights:

- Reduced purchased electricity use by 0.8% (43,584 kWh) vs. 2021
- Increased overall GHG emissions by 1.0% (63 tons CO_2e) vs. 2021

Results from 2022 demonstrate the impact of ongoing energy efficiency projects such as improvements to street lighting, the successful operation of the 300kW PV solar installation at the DPW building, and annualization of the impacts from the 300 kW PV system at City Hall that started up in Spring 2021. This saving occurred despite more heating degree days in 2022.

The Wauwatosa Sustainability Committee thanks the City's Department of Public Works for its leadership in adopting various energy-efficiency technologies that ultimately benefit local taxpayers and the environment. Year-by-year energy and GHG data illustrate the impact of the investment in efficiency and are especially pronounced in years with spikes in energy prices, as occurred in 2022.

Energy and GHG Results

Wauwatosa City Operations:

The City's 2022 energy usage and GHG emissions were 2.4% higher and 1.0% higher, respectively, in 2022 compared to 2021. The City's energy expense increased by 28.4% due to high energy prices across all fuel types. Reducing overall energy use and increasing onsite electricity generation helps ease the financial impacts of volatile energy prices.

	HDD	CDD	Purchased Electricity (kWh)	Natural Gas (Therms)	Gasoline (Gallons)	Diesel (Gallons)	MMBTU	GHG (tons CO2e)	Energy Cost
2021	5,731	1,075	5,310,268	166,168	87,298	105,784	59,793	6,486	$1,210,164
2022	6,364	947	5,266.684	176,601	91,084	106,273	61,211	6,549	$1,554,434
Change	633	(128)	**(43,584)**	10,433	3,786	489	1,418	63	$344,270
% Change	11.0%	(11.9%)	**(0.8%)**	6.3%	4.3%	0.5%	2.4%	1.0%	**28.4%**

Looking at the price increases in more detail, most of the increased energy cost to the City was due to the rise in liquid fuel prices:

	Electricity Price ($/kWh)	Electricity Cost ($)	Natural Gas Price ($/Therm)	Natural Gas Cost ($)	Gasoline Price ($/Gallon)	Gasoline Cost ($)	Diesel Price ($/Gallon)	Diesel Cost ($)	Energy Cost
2021	$0.12	$643,497	$0.70	$116,461	$2.32	$202,957	$2.34	$247,249	$1,210,164
2022	$0.13	$679,744	$0.87	$153,345	$3.38	$308,168	$3.89	$413,176	$1,554,434
Change	$0.01	$36,248	$0.17	$36,884	$1.06	$105,211	$1.55	$165,927	$344,270
% Change	7%	6%	24%	32%	**46%**	52%	**66%**	67%	28.4%

The reduction of greenhouse gas emissions (GHG) leveled off in 2022 with a 1.0% increase from 2021 to 2022, similar to the estimated national GHG emissions increase in 2022. The increase appears to correlate to the natural gas, gasoline, and diesel fuel consumptions which were up 6.3%, 4.3% and 0.5% respectively, along with relatively flat electricity use (down 0.8%).

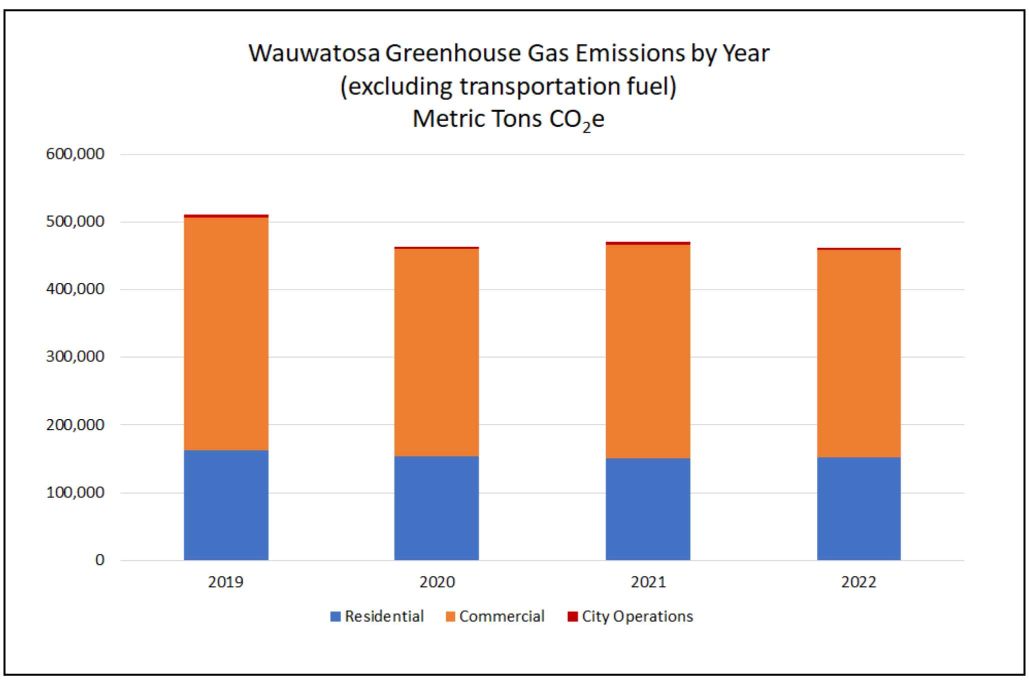
Comparing energy use in different years can be challenging due to the circumstances in each year. Energy use will fluctuate due to heating degree days/cooling degree days, snowstorms causing increased fuel use for plowing, and building use or restrictions. Overall spending will change due to price changes in diesel fuel or natural gas in conjunction with fuel use. However, for some of the variables, normalizing the data can help highlight different areas. A specific example of this is natural gas usage for heating buildings. Normalizing the natural gas usage in Therms by Heating Degree Days (HDD) helps to understand the effect of building or equipment improvements. In 2022, the City used 27.8 Therms per Heating Degree day vs. 28.4 Therms / HDD in 2021. Both values are much less than the 2010 baseline of 41.8 Therms / HDD. Overall, Wauwatosa buildings have become much more efficient in their natural gas use. The supporting data section of this report presents a chart of this data.

New solar arrays brought major reductions in net City electricity use in 2020 (DPW) and 2021 (City Hall). In 2022 we held onto those gains. The City remains poised to reach our 50%-below-2010 target for municipal operations emissions in 2030. Planned solar deployments at the Policy Department, Muellner Building, and Potter Road pumping station will continue to drive down electricity use. Geothermal in Hart Park will reduce natural gas use there. Liquid fuel use has been relatively flat since 2010 and will likely remain so for the next few years. But with many electric vehicles of all types now coming to market, attractive low-emission options will soon emerge for the City fleet.

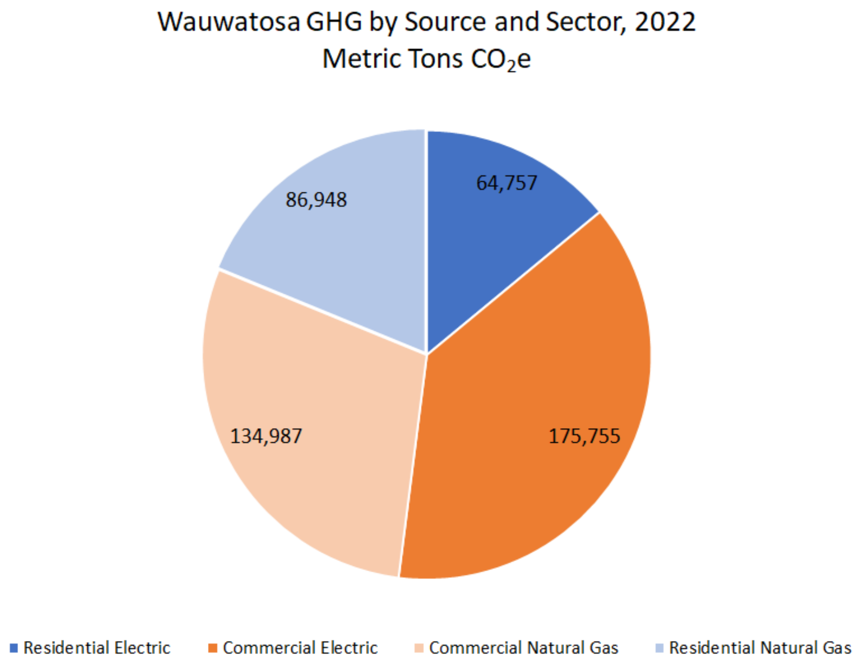
City-Wide Energy Use and Greenhouse Gas Emissions:

WSC engaged with WE Energies to provide aggregated data on electricity and natural gas use for Wauwatosa's residential and commercial energy customers. Data is available for 2019 through 2022, and will be updated yearly. The data provides a baseline for our energy and GHG reduction targets that are under development. Of note is the 9.6% decrease in overall GHG emissions in 2022 compared to the pre-pandemic year of 2019. Overall GHG emissions, not including transportation, declined by 1.6% in 2022 vs. 2021. Most of this decrease is due to WE Energies sourcing lower-carbon electricity.

City operations comprise less than 2% of the city-wide emissions, as represented by the thin red line at the top of each bar in the chart below. While the City Operations staff remains committed to reducing energy use and associated GHG emissions, it is apparent that significant progress is possible only if energy efficiency and renewable energy efforts are directed at both the Commercial and Residential sectors of Wauwatosa. Also, since this analysis is based solely on data from WE Energies, it does not include GHG emissions from transportation fuels. Data from other cities, including Milwaukee's research in 2018, suggest that transportation fuels would add approximately 25% to these values.



WE Energies has made public commitments to decarbonize its electricity generation by 2050. The CO_2 emissions to produce one kWh of electricity have decreased over the past decade due to WE Energies' conversion of power stations from coal to natural gas. However, to fully decarbonize, WE Energies needs to deploy renewable sources such as wind and solar much faster. As they do so, the GHG impact from Wauwatosa's electricity use will decrease. In 2022, approximately 52% of Wauwatosa's GHG emissions were due to electricity use, and the remaining 48% was due to burning natural gas. As stated previously, this data does not include transportation fuels.



Recycling and Composting Results

The City's solid waste diversion rate decreased from 27% to 26%. During 2022, 15,484 tons of municipal solid waste were collected in the City. Of that, 3,998 tons were diverted for recycling. The biggest challenge to curbside recycling continues to be the contamination of the materials that residents deposit in recycling bins. For example, many residents are still placing plastic bags in their bins. The plastic bags clog the sorting machinery and result in lower recyclable payments to the City. It is in the City's best interest, both financially and environmentally, to purify the recycling stream.

The City collected and composted 8,162 tons of yard waste in 2022. In addition, Wauwatosa businesses and households participated, at their own expense, in private curbside food waste composting services. The privately funded composting is a key indicator to making these services more cost effective or free at the City facilities, just as yard wastes are accepted. Diverting this material from landfills reduces the total volume of solid waste while providing organic materials such as landscaping mulch and wood chips by the City and available for pickup by Wauwatosa residents. Organic matter in sanitary landfills decomposes anaerobically to produce methane, a potent greenhouse gas. Studies in other communities report that 2-10% of their overall greenhouse gas emissions are from landfills.

Water Use

The City's water use increased by 10.0% in 2022 vs. 2021. Residential water use decreased by 6.6%, with CII (Commercial, Industrial, Institutional) uses increasing by 49.8% due to several large users now being transferred to Wauwatosa from Milwaukee. Overall, the City used 1.426 billion gallons of water in 2022, a 10.0% increase from 2021. Of this, 812 million gallons was for residential use. This equates to 46.6 gallons per capita per day (gpcd), which is typical of older cities in the Midwest and slightly lower than the national average of 52.1 gpcd.

Designations and Partnerships

SolSmart

Wauwatosa became a SolSmart Gold designee in 2021. The Solar Energy page on the City's website, created as part of the SolSmart process, is still a valuable resource for residents interested in solar.

Green Tier Legacy Communities

The City continues to participate in Green Tier Legacy Communities (GTLC), primarily through attendance at quarterly meetings. The GTLC has assisted the WSC in not only identifying best practices and metrics of similar municipalities that are resource constrained, but also forming a network of relationships with peer municipalities, non-profits, and the DNR in order to move faster toward achieving WSC goals. GTLC members such as La Crosse, Sheboygan, and Wausau are relatively similar in size to Wauwatosa. Sharing with and hearing from these communities as well as larger (Racine) and much smaller ones (Egg Harbor) has been affirming and motivating. The list of GTLC participants can be found here:
https://dnr.wisconsin.gov/topic/GreenTier/Participants/CharterPages/LegacyCommunitiesReports.html

Wisconsin Local Government Climate Coalition

In late 2021, the Council approved Wauwatosa joining the Wisconsin Local Government Climate Coalition (WLGCC). The group's mission is to provide a platform for members to collaborate on overcoming barriers to decarbonization, accelerating local climate change solutions, and ensuring the benefits of the clean energy economy are distributed to everyone throughout the state. Member cities represent 1.7 million Wisconsin residents. City sustainability leaders recognize that progress is determined through a combination of strategies both within their cities and across the state. Some of these statewide strategies include policies regarding distributed electricity generation, building codes, and building performance benchmarking and reporting. Members of WSC have been participating in WLGCC meetings since October 2021.

Milwaukee City-County Task Force on Climate and Economic Equity

In 2019, resolutions from the City of Milwaukee Common Council and County Board of Supervisors created the City-County Task Force on Climate and Economic Equity. This Task Force was charged with "making recommendations on how to address the ongoing climate crisis, ensure Milwaukee meets the obligations set by scientists for necessary greenhouse gas reduction, and mitigate racial and economic inequity through 'green' jobs." A preliminary report was issued in March 2020 that recommended further study of ten "big ideas" that had the potential to significantly impact the County's greenhouse gas emissions while furthering economic opportunity for all. Multi-stakeholder workgroups were convened for each area in late 2020 and into 2021. WSC members were represented on three of the work groups: Preserve and Restore Nature in the City, Residential Energy Efficiency and Solar Retrofits, and Food Waste Reduction. A summary of recommendations from each of the ten work groups were presented to the Milwaukee Common Council in May 2022, and a draft plan was released for public comment in November 2022. Many of the recommended solutions and commensurate funding will be applicable for Wauwatosa.

2022 Wauwatosa Sustainability Committee Goals and Status

Goal	Status	Comments
1. Create and maintain an energy and greenhouse gas inventory for the City to use as a baseline for near-term energy and GHG reduction goals.	✓	• Energy and GHG emissions for City operations as well as cumulative data for Wauwatosa, are being collected and reported annually. • Also including waste/recycling and water use
2. Support the Wauwatosa School District's efforts to reduce its carbon footprint in operations and to engage students through school-wide "green teams" and other learning opportunities.	⟳	• WSC members met with school leaders and with staff and student green teams. Meetings with several schools represented to coordinate efforts. Superintendent Means supports more sustainability engagement. • Potential for onsite solar with changes in financial incentives included in the Inflation Reduction Act.
3. Engage with City departments, elected officials, citizen committees, civic groups, and the general public to share information on the City's sustainability efforts and progress, and build support for a more sustainable Wauwatosa.	⟳	• WSC members shared information with the public from a table at the Wauwatosa Farmers Market in June, and the Tosa Green Summit in September. • WSC met with the City's communication team; provided content for newsletter/social media posts. • WSC has periodic check-ins with economic development staff. • Shared presentations with Wauwatosa's Equity and Inclusion Commission • Supported proposals for "No Mow May"; aligned with other Milwaukee suburbs on NMM messaging.
4. Identify and recommend specific policies, actions, or long-range goals which the City can enact or promote consistent with the City's Energy Resolution of October 2020, and ensure such items are incorporated into the City's strategic planning process.	⟳	• Provided background information to Operations staff regarding potential sustainability manager position. • Supported staff's investigation of the viability of new solar PV at the former City landfill site.

completed or made significant progress

started; in progress

not started or minimal progress

Additional Activities

- **No Mow May**

While it was not a directly stated goal, the Committee identified the practice known commonly as “No Mow May'' as a step towards promoting sustainable landscape practices in Wauwatosa. The intent of “No Mow May'' is to allow early blooming vegetation for pollinators to consume as a source of dwindling food supplies. Working with Alderpesons and City staff, the Committee presented options to alter the existing code to push back enforcement of grass heights until June, thereby updating an existing code. Through the cooperation of the citizen committee, Community Affairs Committee, and the Common Council, the “Adoption of No Mow May” occurred on December 20, 2022. Participation by City residents and businesses is voluntary.

- **Sustainability Manager/Coordinator Staff Position**

On November 15, 2022 the Common Council adopted a plan presented by Alder Dolan and supported in person by WSC members for the creation of the position of Sustainability Manager to be included within the Department of Public Works. Said position is consistent with the approved Strategic Plan, and the City agreed to adopt the Vision, Missions and Organizational Values contained within the strategic plan as presented to the Committee of the Whole on September 6, 2022

Wauwatosa Sustainability Committee 2023 Work Streams

1. Create and maintain an energy/greenhouse gas inventory and reporting framework for the City to use as a baseline for near-term energy and GHG reduction goals.

2. Identify and recommend specific policies, actions, or long-range goals which the City can enact or promote consistent with the City's Energy Resolution of October 2020.

3. Establish and grow partnerships with City departments and committees, elected officials, civic groups, the Wauwatosa School District, and other communities and organizations that support Wauwatosa's efforts to reduce its overall environmental impact and achieve its sustainability goals.

4. Engage with Wauwatosa residents and businesses to share ideas and practices that enhance sustainability in the community.

Supporting Data

City Government Energy and GHG Results, 2010-2021

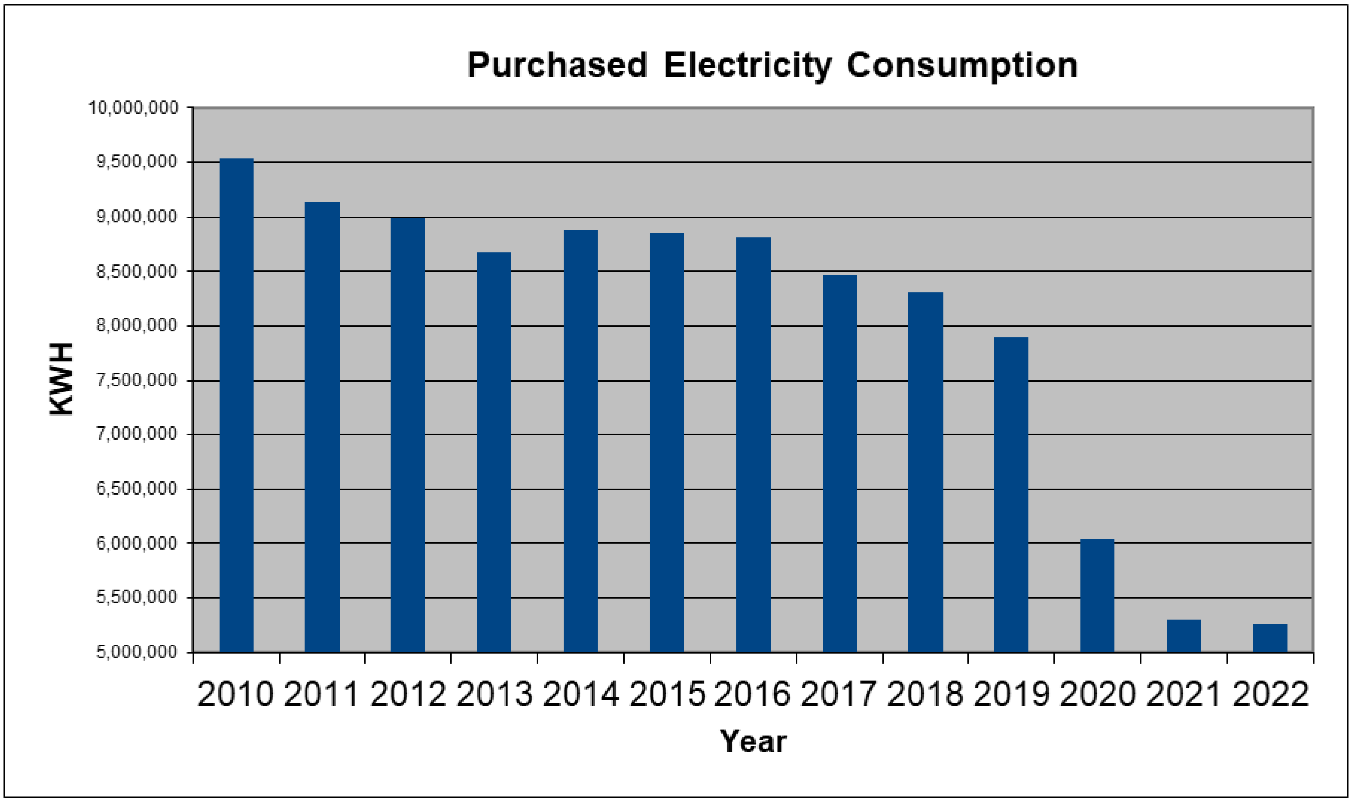
Year	HDD	CDD	Purchased Electricity (KWh)	Natural Gas (Therms)	Gasoline (gallons)	Diesel (gallons)	MMBTU	CO2e (Tons)	Dollars
2010	6,183	944	9,538,796	258,700	96,266	91,890	82,645	10,725	$1,514,995
2011	6,633	793	9,136,848	253,225	94,670	93,689	80,781	10,392	$1,650,433
2012	5,703	1,041	8,993,549	207,404	96,288	93,958	75,941	10,034	$1,651,593
2013	7,233	688	8,679,293	268,624	91,341	103,216	81,668	10,207	$1,724,667
2014	7,616	464	8,878,545	300,852	88,088	111,957	86,380	10,612	$1,750,699
2015	6,468	622	8,850,347	237,108	85,097	97,590	77,574	10,029	$1,452,050
2016	6,068	991	8,807,278	210,261	87,949	97,361	75,055	9,865	$1,374,577
2017	5,926	777	8,471,286	196,238	88,551	92,683	71,936	9,482	$1,364,956
2018	6,694	929	8,299,790	210,478	91,561	101,098	74,294	9,557	$1,460,888
2019	6,835	727	7,896,032	211,152	95,998	105,970	74,188	8,631	$1,427,603
2020	6,094	938	6,037,021	162,325	93,611	97,533	61,515	6,952	$1,075,791
2021	5,731	1,075	5,310,268	166,168	87,298	105,784	59,793	6,486	$1,210,164
2022	6,364	947	5,266,684	176,601	91,084	106,273	61,211	6,549	$1,554,434

Abbreviations:

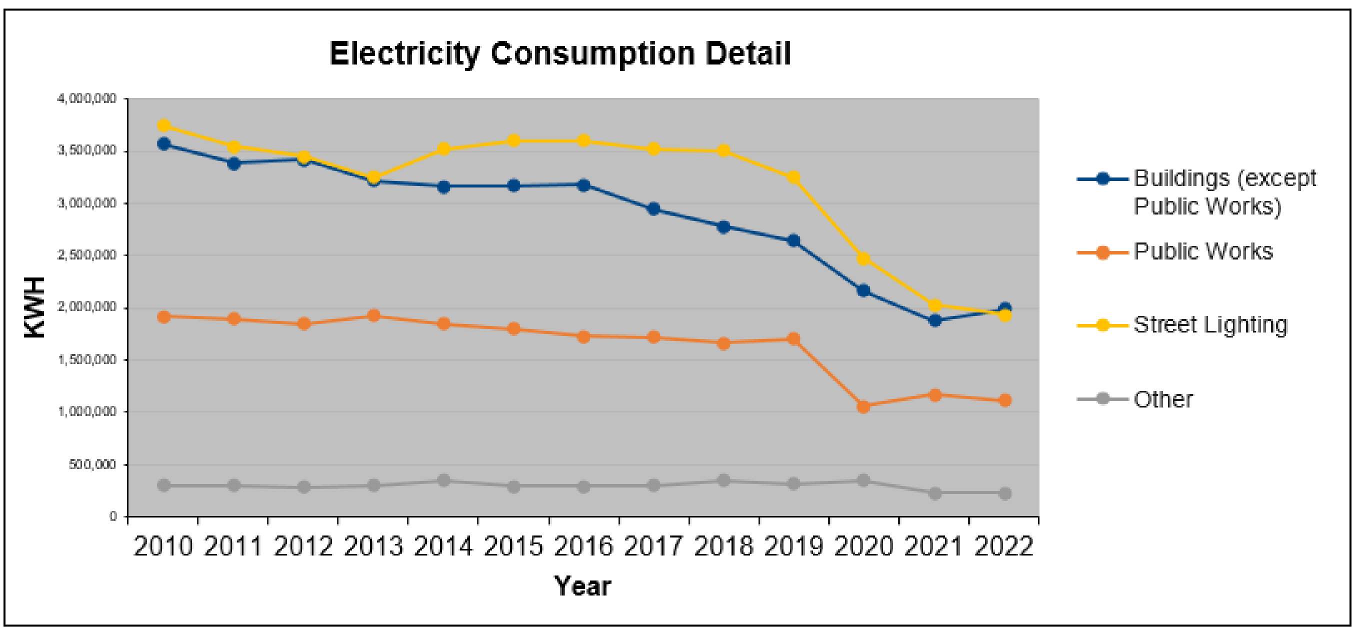
HDD: heating degree days
CDD: cooling degree days
KWh: kilowatt-hours of electricity
Therm: amount of natural gas required to produce 100,000 BTU (0.1 MMBTU) of heat
MMBTU: million BTU. Energy content of various fuels purchased are expressed in MMBTU and summed to show the total energy used for City operations.
CO_2e: estimated emission of greenhouse gases, in tons of CO_2 equivalent. Greenhouse gases other than CO2 are assigned factors based on their relative global warming potential and are included in this value.
Source: https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator.

The spreadsheet is available in Microsoft Excel format by request of the Committee.

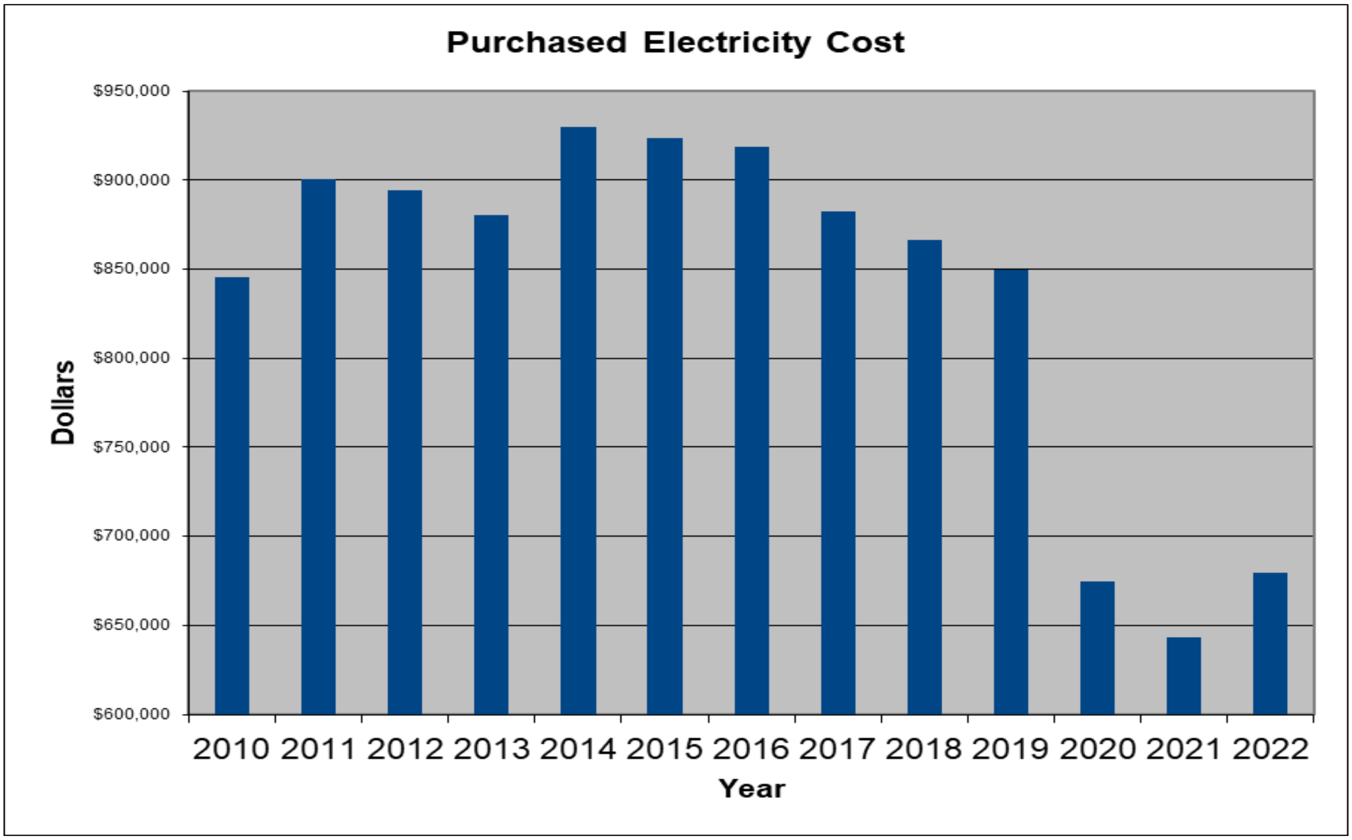
Selections from the data is presented graphically on the following pages:

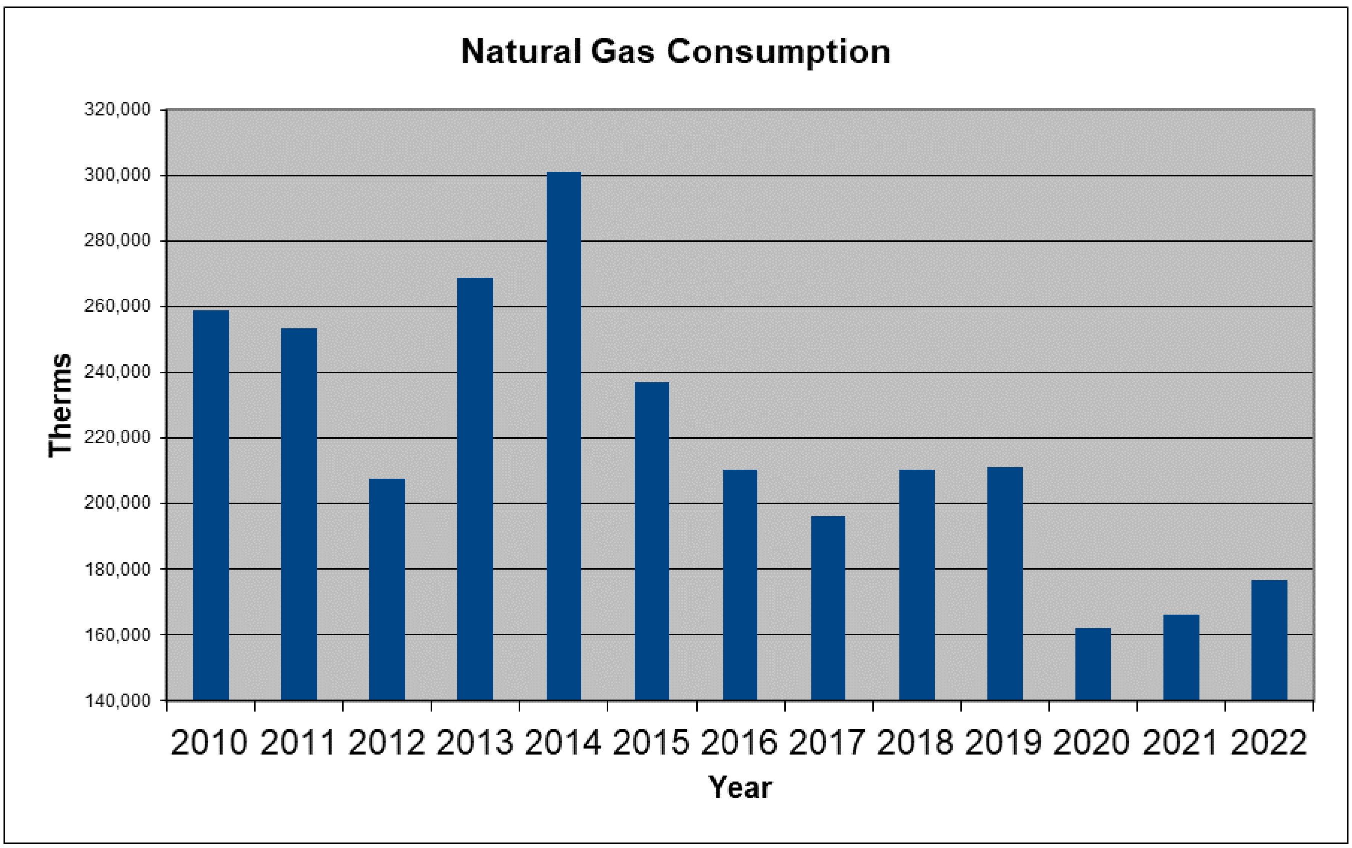


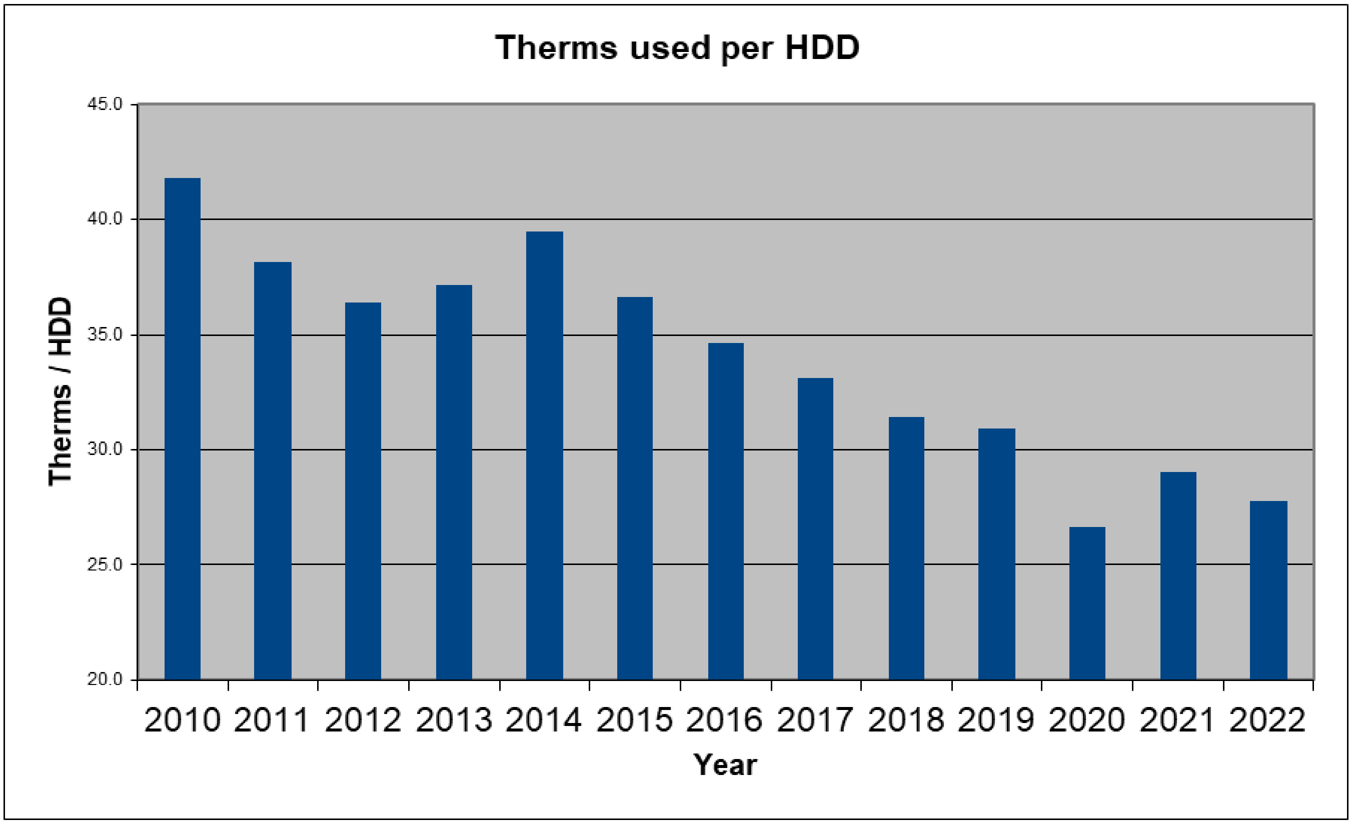
Purchased Electricity Consumption
10,000,000
9,500,000
9,000,000
8,500,000
8,000,000
7,500,000
7,000,000
6,500,000
6,000,000
5,500,000
5,000,000
KWH
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
Year

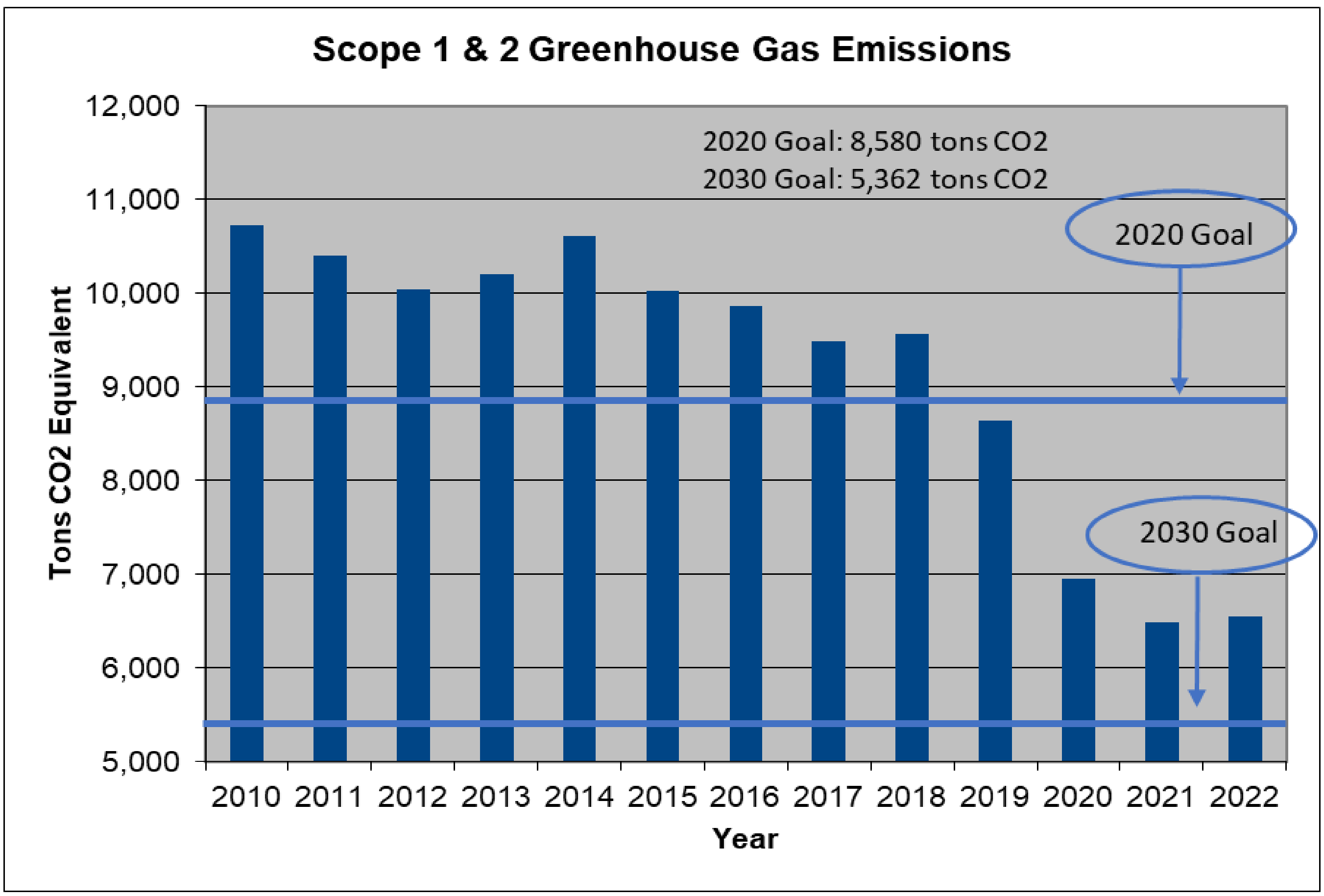


Electricity Consumption Detail
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
KWH
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
Year
Buildings (except Public Works)
Public Works
Street Lighting
Other


Purchased Electricity Cost
Dollars
$950,000
$900,000
$850,000
$800,000
$750,000
$700,000
$650,000
$600,000
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
Year


Natural Gas Consumption
Therms
320,000
300,000
280,000
260,000
240,000
220,000
200,000
180,000
160,000
140,000
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
Year


Therms used per HDD
Therms / HDD
45.0
40.0
35.0
30.0
25.0
20.0
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
Year


Scope 1 & 2 Greenhouse Gas Emissions
Tons CO2 Equivalent
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
2020 Goal: 8,580 tons CO2
2030 Goal: 5,362 tons CO2
2020 Goal
2030 Goal
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
Year

WE Energies City-Wide Energy Data, 2019-2022

	2019		2020			2021			2022		
Residential		GHG (MT CO2e)		GHG (MT CO2e)	y/y change		GHG (MT CO2e)	y/y change		GHG (MT CO2e)	y/y change
Electric Customers:	23,959		23,936			24,317			22,161		
Electricity (kWh):	149,249,818	73,132	159,431,943	73,020	-0.20%	160,460,770	71,405	-2.20%	156,040,679	64,757	-9.30%
Gas Customers:	21,468		21,518			21,701			19,710		
Gas (therms):	16,891,191	89,523	15,129,368	80,186	-10.40%	15,021,828	79,616	-0.70%	16,405,364	86,948	9.20%
Total Residential:		162,655		153,206	-5.80%		151,021	-1.40%		151,705	0.50%
Commercial											
Electric Customers:	1,316		1,318			1,310			2,250		
Electricity (kWh):	435,758,457	213,522	406,627,927	186,236	-12.80%	434,921,137	193,540	3.90%	423,505,260	175,755	-9.20%
City Operations:	7,896,032		5,951,905		-24.60%	5,310,268		-10.80%	5,266,684		-0.80%
Gas Customers:	1,010		1,025			1,072			1,400		
Gas (therms)	25,500,658	135,153	23,486,797	124,480	-7.90%	23,666,237	125,431	0.80%	25,469,314	134,987	7.60%
City Operations:	211,152		162,325		-23.10%	166,168		2.40%	176,601		6.30%
Total Commercial:		348,675		310,716	-10.90%		318,971	2.70%		310,742	-2.60%
Private Street Lighting											
Electricity (kWh):	507,979	249	514,145	235	-5.40%	422,774	188	-20.10%	419,724	174	-7.40%
TOTAL GHG (MT CO2e):		**511,579**		**464,157**	**-9.30%**		**470,180**	**1.30%**		**462,622**	**-1.60%**

Does not include transportation

Does not include fuel oil for heating

City Operations use is included in Commercial data from WE Energies

"Customers" are discreet meters

7725 W. North Avenue
Wauwatosa, WI 53213

Staff Report

File #: 23-1025 **Agenda Date:** 4/25/2023 **Agenda #:** 2.

Approval of State Municipal Agreement for the design of North Avenue reconstruction from 95th Street to 73rd Street

A. Issue
Approve a State Municipal Agreement (SMA) with the Wisconsin Department of Transportation (WisDOT) for City costs associated with the design of the reconstruction of North Avenue between 95th Street and 73rd Street.

B. Background and Discussion
Earlier this year, the Common Council approved an SMA with the DOT for the reconstruction of the North Avenue bridges on the Menomonee River (CC: Res R-23-17). That project includes the reconstruction of North Avenue between Met-To-Wee Lane and 95th Street.

Last year, we applied for DOT funding to reconstruct the next segment of North Avenue, from 95th Street to 73rd Street. DOT has awarded partial funding for our project with the opportunity to apply for the remainder of funding later this year.

In order to expedite this project, the DOT is willing to execute an SMA for the design phase now and do an additional SMA later, after construction funding is obtained. If we are approved for construction funding we will combine the bridge project with this North Avenue project into a single construction package, with construction anticipated in 2027.

C. Strategic Plan
Priority 2: Public Safety Goal 2, Proactively address pedestrian, bicycle, and vehicle safety.
Priority 3: Infrastructure, Goal 2, Ensure the City's infrastructure supports public health through multimodal transportation and recreational opportunities.

D. Fiscal Impact
The total estimated cost of the roadway design is estimated at $1,011,966. The cost for the City funded items is estimated at $202,393. Funding for this project was not anticipated to occur this soon, therefore it was not included in our proposed 2023 Capital Improvements Plan. There are sufficient funds in the Capital Projects Fund balance to cover our share of the design cost. The fund will be repaid with funds from any 2023 capital project savings and/or a 2024 capital budget request.

In addition to the roadway design costs will be water main and sanitary sewer design costs. These items would either be designed in-house or funded under a separate agreement which would be brought to the Financial Affairs Committee for approval at some time in the future.

Final costs will be determined by final design and bid prices.

E. Recommendation
Authorize execution of the attached State/Municipal Agreements for design costs.

Urbanized Area STP-Urban (206) Standard SMA Template

STATE/MUNICIPAL AGREEMENT FOR A STATE- LET STP Urban PROJECT **Program Name: STP-Urban** **Population Group: 200,000+** **Sub-program #: 206**	Date: January 31, 2023 I.D.: 2135-15-00 Road Name: W North Ave Limits: 95th St to N 73rd St County: Milwaukee Roadway Length: 1.34 miles Functional Classification: Principal Arterial Project Sponsor: City of Wauwatosa

The signatory, City of Wauwatosa, hereinafter called the Municipality, through its undersigned duly authorized officers or officials, hereby requests the State of Wisconsin Department of Transportation, hereinafter called the State, to initiate and effect the highway or street improvement hereinafter described.

The authority for the Municipality to enter into this agreement with the State is provided by Sections 86.25(1), (2), and (3) and Section 66.0301 of the Statutes.

NEEDS AND ESTIMATE SUMMARY:

All components of the project must be defined in the environmental document if any portion of the project is federally funded. The Municipality agrees to complete all participating and any non-participating work included in this improvement consistent with the environmental document. No work on final engineering and design may occur prior to approval of the environmental document.

Existing Facility - Describe and give reason for request: W North Avenue is a 2-lane roadway with an urban cross section and 10-11ft lanes. The pavement is HMA over concrete and is experiencing rutting in the wheel pans, longitudinal and transverse cracking, and alligator cracking at some joints. There is sidewalk and on street bicycle accommodations and lighting.

Proposed Improvement - Nature of work: Pavement replacement with curb and gutter, parking, bicycle lanes, and sidewalk. New lighting, signals, signing and storm sewer work is planned. Intersection bump outs and improved pedestrian crossings are proposed at N. 90th St., N. 85th St., N. 82nd St., N. 81st St., N. 80th St. and N. 73rd St. A midblock crossing is proposed between Pasadena Blvd. and N. 86th St

Describe non-participating work included in the project and other work necessary to completely finish the project that will be undertaken independently by the Municipality. Please note that non-participating components of a project/contract are considered part of the overall project and will be subject to applicable federal requirements: work could include, but may not be limited to, adjustment of water service boxes, gate valves, and manholes; adjustment of sanitary sewer manholes, placing of new sanitary manhole seals and covers, haul road.

The Municipality agrees to the following 2023-2026 STP Urbanized Area project funding conditions:

Project design is funded with up to 80% federal funding up to a funding limit of $809,573. The Municipality agrees to provide the remaining 20% and any funds in excess of the $809,573 federal/state funding limit. Real estate, railroad, and utility costs are 100% locally funded. Non-participating costs are 100% the responsibility of the Municipality. Any work performed by the Municipality prior to federal authorization is not eligible for federal funding. The Municipality will be notified by the State that the project is authorized and available for charging.

Urbanized Area STP-Urban (206) Standard SMA Template

This project is currently scheduled in State Fiscal Year **2027.** Sunset date: **June 30, 2032.**

Sunset Date is determined based on the date a project is scheduled to be authorized. Sunset date is calculated as six years from the beginning of the state fiscal year (SFY) in which a project is initially scheduled.

Extensions may be available upon approval of a written request by or on behalf of the Municipality to State. The written request shall explain the reasons for project implementation delay and revised timeline for project completion.

The dollar amounts shown in the Summary of Costs Table below are estimates. The final Municipal share is dependent on the final federal participation, and actual costs will be used in the final division of cost for billing and reimbursement. In no event shall federal or State funding exceed the estimate of $809,573 in the Summary of Costs Table, unless such increase is approved in writing by the State through the State's Change Management Policy prior to the Municipality incurring the increased costs.

	SUMMARY OF COSTS				
PHASE	**Total Est. Cost**	**Federal Funds**	**%**	**Municipal Funds**	**%**
ID 2135-15-00					
Design	**$986,966**	**$789,573**	**80%**	**$197,393**	**20% + BAL**
State Review	**$25,000**	**$20,000**	**80%**	**$5,000**	**20% + BAL**
Total Est. Cost Distribution	**$1,011,966**	**$809,573**	**N/A**	**$202,393**	**N/A**

*Design ID# 2135-15-00 federal funding is limited to $809,573.

This request is subject to the terms and conditions that follow (pages 3 – 8) and is made by the undersigned under proper authority to make such request for the designated Municipality and upon signature by the State and delivery to the Municipality shall constitute agreement between the Municipality and the State. No term or provision of neither the State/Municipal Agreement nor any of its attachments may be changed, waived or terminated orally but only by an instrument in writing executed by both parties to the State/Municipal Agreement.

Signatures certify the content has not been altered by the municipality. Signed for and in behalf of the **City of Wauwatosa** (please sign in blue ink) Name (print) Dennis R McBride	Title Mayor
Signature	Date
Name (print) Steven A Braatz, Jr	Title City Clerk
Signature	Date
Name (print) John Ruggini	Title: Finance Director
Signature	Date
Approved as to form and execution Name (print) Alan Kesner	Title City Attorney
Signature	Date
Signed for and in behalf of the **State** (please sign in blue ink) Name **Tony Barth**	Title **WisDOT SE Region Planning Chief**
Signature	Date

GENERAL TERMS AND CONDITIONS:

1. All projects must be in an approved Transportation Improvement Program (TIP) or State Transportation Improvement Program (STIP) prior to requesting authorization.

2. Work prior to federal authorization is ineligible for federal funding.

3. The Municipality, throughout the entire project, commits to comply with and promote all applicable federal and state laws and regulations that include, but are not limited to, the following:

   a. Environmental requirements, including but not limited to those set forth in the 23 U.S.C. 139 and National Environmental Policy Act (42 U.S.C. 4321 et seq.)

   b. Equal protection guaranteed under the U.S. Constitution, WI Constitution, Title VI of the Civil Rights Act and Wis. Stat. 16.765. The municipality agrees to comply with and promote applicable Federal and State laws, Executive Orders, regulations, and implementing requirements intended to provide for the fair and equitable treatment of individuals and the fair and equitable delivery of services to the public. In addition the Municipality agrees not to engage in any illegal discrimination in violation of applicable Federal or State laws and regulations. This includes but is not limited to Title VI of the Civil Rights Act of 1964 which provides that "no person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance." The Municipality agrees that public funds, which are collected in a nondiscriminatory manner, should not be used in ways that subsidize, promote, or perpetuate illegal discrimination based on prohibited factors such as race, color, national origin, sex, age, physical or mental disability, sexual orientation, or retaliation.

c. Prevailing wage requirements, including but not limited to 23 U.S.C 113.

d. Buy America Provision and its equivalent state statutes, set forth in 23 U.S.C. 313 and Wis. Stat. 16.754.

e. Competitive bidding and confidentiality requirements set forth in 23 U.S.C 112 and Wis. Stat. 84.06. This includes the sharing of financial data prior to the conclusion of the competitive bid period.

f. All applicable Disadvantaged Business Enterprise (DBE) requirements that the State specifies.

g. Federal statutes that govern the Surface Transportation Program (STP), including but not limited to 23 U.S.C. 133.

h. General requirements for administering federal and state aid set forth in Wis. Stat. 84.03.

STATE RESPONSIBILITIES AND REQUIREMENTS:

4. Funding of each project phase is subject to inclusion in Wisconsin's approved 2023-2026 STP Urbanized Area STP-Urban program. Federal funding will be limited to participation in the costs of the following items, as applicable to the project:

   a. The grading, base, pavement, and curb and gutter, sidewalk, and replacement of disturbed driveways in kind.

   b. The substructure, superstructure, grading, base, pavement, and other related bridge and approach items.

   c. Storm sewer mains necessary for the surface water drainage.

   d. Catch basins and inlets for surface water drainage of the improvement, with connections to the storm sewer main.

   e. Construction engineering incident to inspection and supervision of actual construction work (except for inspection, staking, and testing of sanitary sewer and water main).

   f. Signing and pavement marking.

   g. New installations or alteration of street lighting and traffic signals or devices.

   h. Landscaping.

   i. Preliminary engineering and design.

   j. State review services.

5. The work will be administered by the State and may include items not eligible for federal participation.

6. As the work progresses, the State will bill the Municipality for work completed which is not chargeable to federal funds. Upon completion of the project, a final audit will be made to determine the final division of costs subject to project funding limits in the Summary of Costs Table. If reviews or audits show any of the work to be ineligible for federal funding, the Municipality will be responsible for any withdrawn costs associated with the ineligible work.

MUNICIPAL RESPONSIBILITIES AND REQUIREMENTS:

7. Work necessary to complete the 2023-2026 STP Urbanized Area STP-Urban improvement project to be financed entirely by the Municipality or other utility or facility owner includes the items listed below.

   a. New installations of or alteration of sanitary sewers and connections, water, gas, electric, telephone, telegraph, fire or police alarm facilities, parking meters, and similar utilities.

   b. Damages to abutting property after project completion due to change in street or sidewalk widths, grades or drainage.

   c. Detour routes and haul roads. The municipality is responsible for determining the detour route.

   d. Conditioning, if required and maintenance of detour routes.

   e. Repair of damages to roads or streets caused by reason of their use in hauling materials incident to the improvement.

   f. All work related to underground storage tanks and contaminated soils.

   g. Street and bridge width in excess of standards, in accordance with the current *WisDOT Facilities Development Manual*.

   h. Real estate for the improvement.

   i. Other 100% Municipality funded items: determined through design

8. The construction of the subject improvement will be in accordance with the appropriate standards unless an exception to standards is granted by State prior to construction. The entire cost of the construction project, not constructed to standards, will be the responsibility of the Municipality unless such exception is granted.

9. Work to be performed by the Municipality without federal funding participation necessary to ensure a complete improvement acceptable to the Federal Highway Administration and/or the State may be done in a manner at the election of the Municipality but must be coordinated with all other work undertaken during construction.

10. The Municipality is responsible for financing administrative expenses related to Municipal project responsibilities.

11. The Municipality will include in all contracts executed by them a provision obligating the contractor not to discriminate against any employee or applicant for employment because of age, race, religion, color, handicap, sex, physical condition, developmental disability as defined in Wis. Stat.51.01 (5), sexual orientation as defined in Wis. Stat. 111.32 (13m), or national origin.

12. The Municipality will pay to the State all costs incurred by the State in connection with the improvement that exceed federal financing commitments or are ineligible for federal financing. To guarantee the Municipality's foregoing agreements to pay the State, the Municipality, through its above duly authorized officers or officials, agrees and authorizes the State to set off and withhold the required reimbursement amount as determined by the State from any moneys otherwise due and payable by the State to the Municipality.

13. In accordance with the State's sunset policy for Local Bridge Program projects, the subject 2022-2027 STP improvement must be constructed and in final acceptance within six years from the beginning of the state fiscal year (SFY) in which a project is initially scheduled. Extensions may be available upon approval of a written request by or on behalf of the Municipality to State. The written request shall explain the reasons for project implementation delay and revised timeline for project completion.

14. If the Municipality should withdraw the project, it will reimburse the State for any costs incurred by the State on behalf of the project.

15. The Municipality will at its own cost and expense:

a. Maintain all portions of the project that lie within its jurisdiction (to include, but not limited to, cleaning storm sewers, removing debris from sumps or inlets, and regular maintenance of the catch basins, curb and gutter, sidewalks and parking lanes [including snow and ice removal]) for such maintenance in a manner consistent with reasonable industry standards, and will make ample provision for such maintenance each year.

b. Regulate [or prohibit] parking at all times in the vicinity of the proposed improvements during construction.

c. Regulate [or prohibit] all parking at locations where and when the pavement area usually occupied by parked vehicles will be needed to carry active traffic in the street.

d. Assume general responsibility for all public information and public relations for the project and to make fitting announcement to the press and such outlets as would generally alert the affected property owners and the community of the nature, extent, and timing of the project and arrangements for handling traffic within and around the project.

e. Provide complete plans, specifications, and estimates to State upon request.

f. Provide relocation orders and real estate plats to State upon request.

g. Use the *WisDOT Utility Accommodation Policy* unless it adopts a policy, which has equal or more restrictive controls.

h. Provide maintenance and energy for lighting.

i. Provide proper care and maintenance of all landscaping elements of the project including replacement of any plant materials damaged by disease, drought, vandalism or other cause.

16. It is further agreed by the Municipality that:

a. The Municipality assumes full responsibility for the design, installation, testing and operation of any sanitary sewer and water main infrastructure within the improvement project and relieves the state and all of its employees from liability for all suits, actions, or claims resulting from the sanitary sewer and water main construction under this agreement.

b. The Municipality assumes full responsibility for the plans and special provisions provided by their designer or anyone hired, contracted or otherwise engaged by the Municipality. The Municipality is responsible for any expense or cost resulting from any error or omission in such plans or special provisions. The Municipality will reimburse State if State incurs any cost or expense in order to correct or otherwise remedy such error or omission or consequences of such error or omission.

c. The Municipality will be 100% responsible for all costs associated with utility issues involving the contractor, including costs related to utility delays.

d. All signs and traffic control devices and other protective structures erected on or in connection with the project including such of these as are installed at the sole cost and expense of the Municipality or by others, will be in conformity with such *Manual of Uniform Traffic Control Devices* as may be adopted by the American Association of State Highway and Transportation Officials, approved by the State, and concurred with by the Federal Highway Administration.

e. The right-of-way available or provided for the project will be held and maintained inviolate for public highway or street purposes. Those signs prohibited under federal aid highway regulations, posters, billboards, roadside stands, or other private installations prohibited by Federal or State highway regulations will not be permitted within the right-of-way limits of the project. The Municipality, within its jurisdictional limits, will remove or cause to be removed from the right-of-way of the project all private installations of whatever nature which may be or cause an obstruction or interfere with the free flow of traffic, or which may be or cause a hazard to traffic, or which impair the usefulness of the project and all other encroachments which may be required to be removed by the State at its own election or at the request of the Federal Highway Administration, and that no such installations will be permitted to be erected or maintained in the future.

f. The Municipality is responsible for any damage caused by legally hauled loads, including permitted oversize and overweight loads. The contractor is responsible for any damage caused to haul roads if they do not obey size and weight laws, use properly equipped and maintained vehicles, and do not prevent spilling of materials onto the haul road (*WisDOT Standard Specifications* 618.1, 108.7, 107.8). The local maintaining authority can impose special or seasonal weight limitations as defined in Wis. Stat. 349.16, but this should not be used for the sole purpose of preventing hauling on the road.

The bid item 618.0100 Maintenance and Repair of Haul Roads (project) is ineligible for federal funding on local program projects as per the State/Municipal Agreement. The repair of damages as a result of hauling materials for the project is the responsibility of the Municipality as specified in the State/Municipal Agreement Terms and Conditions under Municipal Responsibilities and Requirements.

LEGAL RELATIONSHIPS:

17. The State shall not be liable to the Municipality for damages or delays resulting from work by third parties. The State also shall be exempt from liability to the Municipality for damages or delays resulting from injunctions or other restraining orders obtained by third parties.

18. The State will not be liable to any third party for injuries or damages resulting from work under or for the Project. The Municipality and the Municipality's surety shall indemnify and save harmless the State, its officers and employees, from all suits, actions or claims of any character brought because of any injuries or damages received or sustained by any person, persons or property on account of the operations of the Municipality and its sureties; or on account of or in consequence of any neglect in safeguarding the work; or because of any act or omission, neglect or misconduct of the Municipality or its sureties; or because of any claims or amounts recovered for any infringement by the Municipality and its sureties of patent, trademark or copyright; or from any claims or amounts arising or recovered under the Worker's Compensation Act, relating to the employees of the Municipality and its sureties; or any other law, ordinance, order or decree relating to the Municipality's operations.

19. Contract modification: This State/Municipal Agreement can only modified by written instruments duly executed by both parties. No term or provision of either this State/Municipal Agreement or any of its attachments may be changed, waived or terminated orally.

20. Binding effects: All terms of this State/Municipal Agreement shall be binding upon and inure to the benefits of the legal representatives, successors and executors. No rights under this State/Municipal Agreement may be transferred to a third party. This State/Municipal Agreement creates no third-party enforcement rights.

21. Choice of law and forum: This State/Municipal Agreement shall be interpreted and enforced in accordance with the laws of the State of Wisconsin. The Parties hereby expressly agree that the terms contained herein and in any deed executed pursuant to this State/Municipal Agreement are enforceable by an action in the Circuit Court of Dane County, Wisconsin.

PROJECT FUNDING CONDITIONS

22. Non-appropriation of funds: With respect to any payment required to be made by the State under this State/Municipal Agreement, the parties acknowledge the State's authority to make such payment is contingent upon appropriation of funds and required legislative approval sufficient for such purpose by the Legislature. If such funds are not so appropriated, either the Municipality or the State may terminate this State/Municipal Agreement after providing written notice not less than thirty (30) days before termination.

23. Maintenance of Records: During the term of performance of this State/Municipal Agreement, and for a period not less than three years from the date of final payment to the Municipality, records and accounts pertaining to the performance of this State/Municipal Agreement are to be kept available for inspection and audit by representatives of the Department. The Department reserves the right to audit and inspect such records and accounts at any time. The Municipality shall provide appropriate accommodations for such audit and inspection.

    In the event that any litigation, claim or audit is initiated prior to the expiration of said records maintenance period, the records shall be retained until such litigation, claim or audit involving the records is complete.

24. The Municipality agrees to the following 2023-2026 STP Urbanized Area STP-Urban project funding conditions:

    a. ID 2135-15-00**:** Design is funded with 80% federal funding, when the Municipality agrees to provide the remaining 20%. This phase includes plan development, and state review. The work includes project review, approval of required reports and documents and processing the final Plan, Specification & Estimate (PS&E) document for award of the contract. Costs for this phase include an estimated amount for state review activities, to be funded 80% with federal funding and 20% by the Municipality.

    b. Real estate is funded 100% by the Municipality. Real estate acquisition is 100% the responsibility of the Municipality.

[End of Document]

Funds	Ending Balance	Net Change	% Change	Comment
10 - GENERAL FUND	22,256,905	(2,908,287)	-11.6%	Investment value decreases due to bond prices
11 - DEBT SERVICE	2,243,081	212,136	10.4%	Use of bond premium as required. Reduction in MADACC loan
12 - CAPITAL IMPROVEMENTS	13,355,643	2,361,628	21.5%	Unused bond proceeds for multi-year projects
13 - COMMUNITY DEV BLOCK GRANT	(6,935)	(1,375)	24.7%	
14 - REVOLVING REVENUE	150,034	77,414	106.6%	
15 - AGENCY	597,209	(50,879)	-7.9%	
16 - HEALTH AND LIFE INSURANCE	(23,369,720)	1,250	0.0%	3.2% claims surplus. Dividend provided to Funds
17 - DENTAL INSURANCE	249,435	9,428	3.9%	
18 - GENERAL LIABILITY	4,794,660	972,815	25.5%	Claims surplus more than offset legal expenses
19 - WORKERS COMPENSATION	166,592	(395,481)	-70.4%	Prior year claims worsened considerably
20 - FLEET	4,500,920	(897,299)	-16.6%	$265K cash reduction due to fuel costs
21 - FLEET CAPITAL	615,056	602,232	4696.0%	
22 - MUNICIPAL COMPLEX	802,743	94,127	13.3%	
24 - INFORMATION TECHNOLOGY	1,813,850	172,392	10.5%	
25 - INFO TECH CAPITAL	1,216,350	248,288	25.6%	
26 - PUBLIC WORKS BUILDING	3,017,812	617,284	25.7%	
27 - PUBLIC WORKS CAPITAL	236,362	81,644	52.8%	
30 - REDEVELOPMENT RESERVE	1,043,242	(388)	0.0%	
31 - COMMUNITY DEV AUTH	5,750,096	4,920,273	592.9%	Net change due to holding Boston Store as asset
32 - TOURISM	1,403,103	800,145	132.7%	$500K surplus in hotel taxes
33 - SPECIAL ASSESSMENTS	(0)	(0)	0.0%	
34 - PARKS	1,317,570	134,773	11.4%	30% surplus in rental revenues
35 - LIBRARY	1,000	1,000		
36 - TAX INCREMENTAL DISTRICTS	2,328,269	(127,635)	-5.2%	
37 - HOSPITAL POLICING	72,904	36,498	100.3%	
38 - SPECIAL GRANTS	(0)	(0)		
50 - WATER	43,443,342	3,157,114	7.8%	approx $400K cash increase
51 - SANITARY	59,391,368	3,898,960	7.0%	approx. $2.5 million cash increase due in part to carryover
52 - STORM SEWER	47,124,415	2,832,870	6.4%	approx $500K cash increase
CA - CAPITAL ASSETS - GOVERNMENTAL	131,963,944	(968,897)	-0.7%	
Grand Total	**$326,479,249.98**	**$15,882,029.28**	**5.1%**	

7725 W. North Avenue
Wauwatosa, WI 53213

File #: 23-1013 **Agenda Date:** 4/25/2023 **Agenda #:** 4.

Review of Financial Resiliency Policy

Submitted by:
John Ruggini
Department:
Finance Department

Issue
In 2016, the Common Council adopted a "Financial Resiliency Policy" based on research conducted by the Government Finance Officers Association. Given the passage of time as well as changes in the organization, local economy and make-up of the Common Council, a review and update of this policy is needed. Over the past several months, the Committee and staff have discussed updates to this policy. A marked-up and clean copy of the policy including all of those changes is attached.

Background/Options
Financial resiliency is defined as the ability to quickly recover from external environmental shocks, such as a severe recession. Attached is a research paper written by the Government Finance Officers Association that describes eight characteristics of a resilient system.

1. **Diversity**: Avoid a single point of failure or reliance on a single solution.
2. **Redundancy**: Have more than one path of escape.
3. **Decentralization**: Centralized systems look strong, but when they fail, the failure is catastrophic.
4. **Transparency**: Don't hide your systems. Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.
5. **Collaboration**: Work together to become stronger.
6. **Fail Gracefully**: Be patient when honest efforts fail and strive to build in safeguards to limit the impact of those failures.
7. **Flexibility**: Be ready to change when plans aren't working. Don't count on stability.
8. **Foresight**: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

The attached policy applies these eight characteristics to the City's financial systems in order to build a resilient organization. Much of what is included are existing financial practices the City already utilizes while also identifying areas for improvement. A significant component of the policy is adopting specific directions and assumptions to develop the five-year forecast.

It is intended that this policy be reviewed annually with the presentation of the five-year forecast and updated every 5-years to reflect changing economic and political conditions.

The policy has not been updated since adoption. Over the past several months, the Committee and staff have discussed updates to this policy. A marked-up and clean copy of the policy including all of those changes is attached.

Fiscal Impact
This item is for informational purposes only

Recommendation
Staff recommend the committee provides feedback on the policy which will be incorporated and then brought again before the committee for formal approval.

Building a Financially Resilient Government through Long-Term Financial Planning

The Government Finance Officers Association
www.gfoa.org • 312-977-9700

Building a Financially Resilient Government through Long-Term Financial Planning

By Shayne Kavanagh, GFOA senior manager of research

The concept of "sustainability" has captured the attention of local government leaders across the United States and Canada over the past few years. This includes finance officers, as the term "financial sustainability" has come to signify practices such as directing one-time revenues away from recurring sources of expenditure and taking into account long-term maintenance and operating costs when planning and evaluating capital projects.

However, the current recession has taught us that sustainability is a necessary but insufficient condition to ensure the ongoing financial health of local government. A sustainable system is balanced, but an external shock (like a severe economic downturn) can unbalance the system and perhaps even collapse it. Local governments will continue to face serious challenges from outside, including but not limited to economic adjustments, natural disasters, and important policy changes by other levels of government. As such, finance officers must strive to help their organizations go beyond sustainability to a system that is adaptable and regenerative – in a word: resilient.

Jamais Cascio, a fellow at the Institute for Ethics and Emerging Technologies, identifies eight essential characteristics of a resilient system:[1]

- **Diversity**: Avoid a single point of failure or reliance on a single solution.
- **Redundancy**: Have more than one path of escape.
- **Decentralization**: Centralized systems look strong, but when they fail, the failure is catastrophic.
- **Transparency**: Don't hide your systems. Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.
- **Collaboration**: Work together to become stronger.
- **Fail Gracefully**: Failure happens. Make sure a failure state won't make things worse.
- **Flexibility**: Be ready to change when plans aren't working. Don't count on stability.
- **Foresight**: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

> A sustainable system is balanced but potentially brittle. A resilient system not only survives shocks, it thrives even under conditions of adversity.

This article explores these characteristics as they relate to creating a financially resilient government and the central role that long-term financial planning plays in financial resiliency. You can use these characteristics to evaluate your own financial planning process and prepare a road map for its evolution. The Government Finance Officers Association (GFOA) interviewed officials at several local governments that have been practicing long-term financial planning for a number of years (some as long as 15 or 20) and that have, as a consequence, achieved financial resiliency. Below are some examples of how these governments are not just surviving the current economic downturn, but thriving in it.

AAA Bond Ratings Achieved. Several of our research subjects have had their bond ratings recently upgraded to AAA, and one had its existing AAA reaffirmed. The rating agencies pointed to long-term financial planning as evidence of management's dedication to the practices that maintain long-term financial health. This is a stark illustration of the "flight to quality" that has been occurring in all investment markets.

Making Believers Out of Skeptics. One government recently had a new chief operating officer who was skeptical of the value of long-term financial planning in the current economy. "What use are multi-year forecasts and strategies under conditions of such volatility?" the COO reasoned. However, the COO was soon converted when she witnessed how the fund balances built up in the good times could be used to buffer shocks, how the governing board was highly engaged in serving as an effective steward over long-term financial health, and how the government was spared the need to suddenly and reflexively resort to the same wrenching retrenchment tactics as many of its neighbors. Of course, receiving an AAA bond rating played no small role in the COO's change of opinion.

Preparing for the Future. Our resiliency research subjects have not only been able to avoid the most painful retrenchment tactics, but have been able to make sound investments in their futures. For example, while many state governments have been using stimulus funds to backfill their operating budgets and thereby defer tough budget decisions, the City of Coral Springs, Florida, has been using stimulus funding to invest in labor-saving technologies. The city's managers and officials believe that the economy is entering a "new normal" where former levels of revenue can't be expected to return. While long-term planning and financial reserves have bought the city some time, this doesn't mean the city can continue on indefinitely as it has. Therefore, officials have been supportive of long-term technology investments that will allow the city to maintain its current service levels with fewer employees, as well as many other program and staffing adjustments that, while not immediately necessary, will reduce the cost of city government over the long term.

Our Featured Local Governments

City of San Clemente, California
City of Sunnyvale, California
City of Coral Springs, Florida
County of Hanover, Virginia
Mentor Public Schools, Ohio

Saving Jobs. One of the most feared consequences of any recession is job loss. Our research subjects for this paper have been able to avoid layoffs so far. Hanover County, Virginia, is particularly enthusiastic about the potential of long-term planning to help to preserve jobs. In Hanover County's experience, the organization-wide perspective provided by a financial plan has been instrumental in encouraging departments to shift underutilized employees to areas of greater need. For example, the recession has reduced construction and the demand for building inspectors, so the county has been able to use them for in-house construction projects and similar tasks where a contractor may have otherwise been used. Hence, the county has been able to shift
building inspectors across tasks, thereby filling a real need while preserving jobs.

The rest of this paper will describe how long-term financial planning supports each of the eight essential characteristics of a resilient system.

Diversity. Avoiding a single point of failure or reliance on a single solution.

- Keep a multi-faceted perspective on financial health.
- Maintain a diversity of funds to reduce reliance on the general fund.
- Enlarge the base of supportive constituents.

The most fundamental aspect of "diversity" in financial planning is a multi-faceted perspective on financial health. The planners' viewpoint should not be limited to focusing on revenues and expenditures. Land-use patterns, demographic trends, and long-term liabilities (such as pensions) must all be carefully monitored. For example, long-term financial planning has highlighted the connection between land-use policy and financial condition for many of our research subjects, thereby directly influencing land-use policies. In Florida, the state distributes sales taxes on a per-capita basis, rather than the point-of-sale method found in many other states. As a result, cities in Florida don't have the same powerful incentive for commercial development that many other cities have. Coral Springs, though, has recognized that commercial properties are not subject to the same property tax restrictions as residential properties, so commercial properties remain important as net contributors to financial health.[2] This nuance has led Coral Springs to emphasize diversity in local land use, while many other cities in the area are primarily residential.

In another example, the City of Sunnyvale, California, like many cities in the state, is part of the California Public Employees' Retirement System (CalPERS). Warned by CalPERS about potential rate increases, the city performed an independent analysis and discovered that it may experience a 35 to 45 percent increase in required contributions in the future. This has allowed the city to begin planning now to mitigate and absorb this risk.

Another common theme among our research subjects is diversity in the funds maintained. Different funds can be used to account for non-current liabilities such as OPEB, workers' compensation, depreciation, and replacement of assets. Self-supporting internal service funds contribute to efficient overhead services. These practices reduce the burden on the general fund and keep it from becoming a single point of failure.

Finally, Mentor Public Schools in Ohio has consciously cultivated constituent diversity. For a school district, parents are the most engaged constituents. However, district taxpayers who don't have children are an indispensible source of funding. Therefore, Mentor Schools takes special care to demonstrate its financial responsibility to parents and non-parents alike, and to find out what non-parents think of the school district's performance. For example, Mentor Schools has an important use fee component to its extracurricular activities (it is not 100 percent tax-supported) and has been mindful of keeping its asset portfolio consistent with future service demands – for example, two properties were recently sold, thereby eliminating maintenance costs, generating a one-time revenue, and placing the property back on the tax rolls. Enhancing financial management credibility by taking highly visible actions like these enlarges Mentor Schools' base of supporters.

Redundancy. Avoid having only one path of escape or rescue.

- ❖ Maintain a reserve policy to prevent use for recurring expenditures and to specify the purpose of reserves.
- ❖ Institutionalize financial planning through governance practices like financial policies and citizen engagement.
- ❖ Pursue multiple strategies for long-term financial health.

Fund balances, or reserves, are the key to redundancy. Focusing on reserve levels across multiple funds helps make sure each fund has appropriate backup. Our subjects agreed that the basis of strong reserves is good financial policy on reserves. A policy should prohibit fund balances from being used for recurring expenditures, save notable exceptions like working capital, or providing temporary budgetary stabilization in an economic downturn. Reserves must be taken very seriously by all managers and officials, so prohibiting unsustainable uses of fund balance emphasizes the preservation of fund balance as the means of rescue from crisis situations.

Our subjects also agreed that it is important to create reserves for specific purposes and to record these purposes in a policy. This preserves the credibility of the reserve system – the reserves are there for a widely understood and agreed-upon reason, not as a slush fund. This, in turn, protects the integrity of the reserve – people see the restriction as important and are less likely to propose inappropriate uses and such proposals, even if made, are unlikely to receive support. The City of San Clemente, California, for example, recently created a reserve for asset maintenance, an activity that has been widely underfunded in many local governments.

Reserves must be taken seriously by all managers and officials, so prohibiting unsustainable uses of fund balance emphasizes the preservation of fund balance as the means of rescue from crisis situations.

Financially resilient governments are distinguished by the adoption of a policy supporting a financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets, financial policies, and service policies. In financially resilient governments, long-term financial planning is institutionalized in the governance of the organization. This leads to consistent decisions. Financial policies are the cornerstone of redundancy because they help preserve good practices through changes in elected officials and top management personnel. The GFOA Best Practice, *Adoption of Financial Policies*, describes many of the most important policies.[3]

In addition to formal policies, community engagement can help assure the continuity of financial planning and related practices. For example, Mentor Schools has a special citizen subcommittee focused on financial planning. While the school board fully supports financial planning, it is subject to a variety of pressures and must address a plethora of issues. However, the subcommittee never lets the school board forget the importance of Mentor School's long-term financial health. In Sunnyvale, citizens took a powerful step to institutionalize financial planning. The city's charter study committee (made up of citizens) recently recommended amending the city charter to require 10-year financial plans.

Citizen engagement can also create more grassroots or viral support for financial planning in the community. Coral Springs has an extensive citizen volunteer program, where citizens help with special projects, like canal clean-up, as well as ongoing services like police patrol and call-center staffing. In addition to reducing staffing costs for the government, the volunteer program gives the city the opportunity to educate and fully engage citizens in the Coral Springs business and financial planning model. The city has found that volunteers take accurate information about the city's financial condition and practices back to their friends and neighbors and often become advocates for these practices. Thus, citizens come to expect a long-term, strategic approach to financial problems from the city.

Finally, resilient governments don't bank on just one strategy to remain financially healthy – they rely on a combination of strategies: short- and long-term revenue enhancement and expenditure reduction. For example, Sunnyvale has modeled a combination of expenditure reductions, revenue enhancements, and drawdowns on the city's budget stabilization reserve to cope with the economic downturn. While the short-term pressure is the most immediate concern for many in Sunnyvale, the financial strategy also includes a two-tiered retirement system (i.e., reduced benefits for new employees) that doesn't save much right away but saves $1.5 million annually by the eighth year of the plan, and a total of $44 million in the general fund over a 20-year period – in a general fund operating budget of about $125 million.

Decentralization. Centralized systems look strong, but failure is catastrophic.

- Make managers manage their cost and revenue structures.
- Engage departments in identifying issues, analyzing them, and developing strategies.
- Engage departments in financial modeling and forecasting.
- Develop an organization-wide strategic framework that departments can innovate within.

Decentralization is about engaging operating departments in financial planning so that all departments think more strategically about finance, rather than long-term financial health relying solely on the efforts of central administration.

The bedrock of decentralization is for all departments to be responsible for their own budgets. For instance, a large county in the western United States made departments more responsible for program revenues by directly linking their budget allocations to program revenue income. In one large Midwestern city, budget analysts had been assigned to each department in order to monitor budget compliance and, where necessary, cajole the department into compliance. In search of a better approach, the analysts were withdrawn and re-assigned to other tasks, while department heads who exceeded their budgets were called in front of the board's finance subcommittee, in a public meeting, to explain the negative variances and what is being done to correct the situation. The department head must then return to these meetings until the problem is corrected and for a period afterward to guard against relapse. Needless to say, department heads prefer to avoid these meetings and are therefore much more rigorous in managing their budgets than before.

Sunnyvale goes beyond these fundamental steps by making departments fully responsible for their long-term cost and revenue structure, including the operating impact of proposed capital projects. In fact, there was recently a high level of interest in a new park in the community, and the recreation director was one of the most vocal advocates for having a long-term funding strategy for maintenance in place before committing to building the park.

With this basic ethos of making managers manage their budget in place, it becomes possible to take a decentralized approach to financial plan development. Through its financial planning process, the finance and operating staff at the City of San Clemente identifies a number of "critical issues" that could affect the future financial health of the city. A number of cross-functional "issue teams" are then formed to analyze each issue and suggest strategies. San Clemente has found that staff members are eager to participate on the teams (some even requesting a spot a year in advance) because they know that the decisions made during the planning process are important and that positive involvement is a key to advancement at the city. The consistent and meaningful involvement of departments in identifying issues, analyzing them, and developing strategies is a consistent theme in financially resilient governments.

Involving departments in financial forecasting and modeling hones their understanding of financial condition, and, hence, their perception of the need for a solid, long-term financial strategy. It also improves the quality of the forecast. Hanover County realized that in the new economic reality, historical data was not as useful as it had been in making projections. Qualitative judgment was more important than ever. The county formed cross-departmental teams to examine major revenue sources and develop key forecast assumptions. For example, community development, economic development, and assessor personnel were all involved in analyzing the property tax.

Finally, and perhaps most importantly, long-term planning fosters a strategic framework for creating value for the public through government programs. The long-term plan articulates the service objectives the government is striving for and defines the parameters within which the government will pursue these objectives. Departments can then develop their own plans and budgets, yet remain aligned with the big picture. A plan drives action and prevents paralysis by analysis or inertia. The plan grants permission to try new things to further the plan's objectives.

All of these characteristics promote the innovation that is needed to adapt to changing financial conditions. When it is accepted that everyone is working toward the same objective, innovation is more likely because commonality of purpose makes new ideas that diverge from the established order permissible – if the innovation is intended to achieve a high-priority strategic goal, then the effort is respected.

As an illustration of how planning can create shared goals, Hanover County has found that its planning process has been very important in creating a widely held acceptance of the value of teamwork across departmental lines.

In Hanover, objectives are established through the planning process, and reliable information relative to the objectives and financial condition is disseminated. The county then reinforces the importance of inter-departmental information sharing by creating communication channels across departmental lines. For example, training and professional development is often one of the first expenditures to come under pressure during a revenue downturn, yet training is a primary source of the innovations that are needed to improve cost-effectiveness. Hanover has used its planning process to establish and support an objective for high-quality professional development across the organization, including encouraging joint training opportunities across departments.

Transparency. Make it easier to figure out where a problem may lie. Share plans and listen when people point out flaws.

- Promote transparency in key areas like goals and objectives, forecast assumptions, and reserve standards.
- Use full-cost (direct and indirect) accounting for programs.

Transparency implies openness, communication, and accountability Transparency pervades the financial planning practices of financially resilient governments. Following is some of the most important information to make transparent.

- **The Organization's Goals and Objectives**. Make sure everyone knows what the goals are, how they were arrived at, and what activities will be undertaken in pursuit of the goals.
- **Forecast Assumptions**. The assumptions that drive revenue and expenditure trends should be available for examination. Some key assumptions include population/enrollment trends, employee headcount, changes in property values, and changes in consumer behavior.
- **Reserve Standards.** What amounts will the government endeavor to hold in reserve, and why? What amounts are actually being held? Are these amounts too much or too little? Clarity on these questions (especially when the amounts held are high) is essential to maintaining the credibility and integrity of the reserve system.

The GFOA's research subjects have also found that full-cost accounting for services (direct and indirect costs) is essential to resiliency. Full-cost accounting makes the cost of doing business transparent. Transparency leads to trust, as everyone can see what the true cost of doing business is for all services, including support services such as budgeting and finance. Transparency and trust leads to better-informed discussions about the relevance and contribution of services, and to opportunities for enhancing revenues, for increasing operational efficiencies, and for enhancing the credibility of the financial management system among management, elected officials, and the public.[4]

Collaboration. Working together to become stronger.

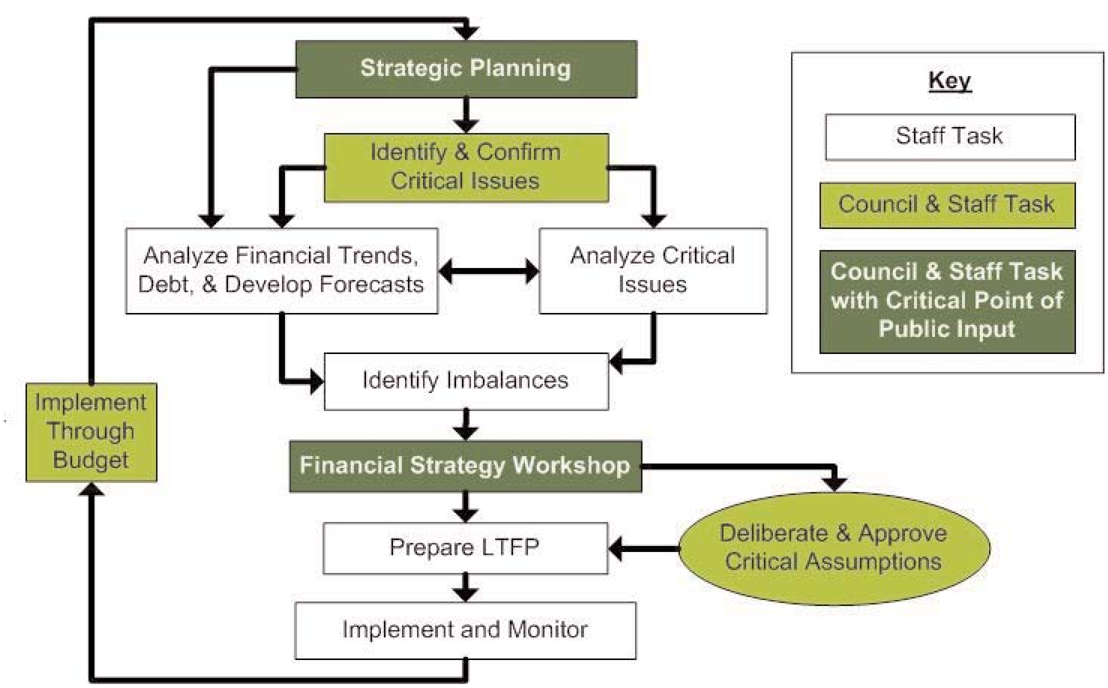
- Build elected officials' service priorities into the plan.
- Provide elected officials a role in that planning process – a role they can thrive in.
- Orient elected officials to the planning process.
- Use key indicators to help elected officials stay abreast of financial condition.

Elected officials have an incalculable impact on financial health because they have the final say over tax policies and budgets. Therefore, resilient governments foster close collaboration between elected officials and staff to help both groups become more savvy financial decision makers, better recognize problems, and enact appropriate solutions.

The first step is to engage elected officials by building their service priorities into the financial plan. In addition to demonstrating that the plan is relevant to their service goals, this step provides a common basis for participation in the planning process – although not every official will be comfortable discussing financial issues, all can discuss and appreciate service issues.

The next step is to provide elected officials with a role in the planning. Exhibit 1 provides an overview of the City of San Clemente's planning process and how elected officials are engaged. The shaded boxes are crucial points of involvement. The Council sets service goals through strategic planning, helps to identify issues that affect the

Exhibit 1: Council Involvement in San Clemente's Planning Process



financial health of the city, and reviews and approves the critical assumptions behind the staff's suggested financial strategies – assumptions that will shape how the annual budget is developed.

When new officials are elected, they must be introduced and acclimated to planning process. Resilient governments have a formal orientation program and periodic refreshers. San Clemente, for example, has an annual financial policy compliance self-review of its policy portfolio. San Clemente has found this is a good way to keep elected officials engaged with financial policies. In addition to these formal mechanisms, regular one-on-one meetings on financial issues give officials a chance to ask questions that they may not be comfortable asking in a public meeting. The impact of all of these efforts is to create a culture on the governing board in favor of financially resilient decisions. Once in place, the culture can become self-sustaining as new officials are subject to peer pressure and existing officials take their own actions to promote resiliency (such as Sunnyvale's aforementioned charter amendment, which was driven by public rather than staff action).

Finally, key indicators of financial condition should be established and communicated to help elected officials remain confident that they have a handle on financial condition. Mentor Public Schools, for example, keeps its board up-to-date on three key indicators:

- Percent of budget spent on personnel (with 85 percent as an upper threshold).
- Recurring revenue versus expenditures (including biannual forecast updates).
- Enrollment trends versus staffing (keeping student to staff ratios consistent).

Fail Gracefully. Failure happens. Make sure failure won't make things worse.

- Recognize changing conditions to make a soft landing.
- Promote credibility and open dialogue to learn from and correct failure.

Financially resilient governments recognize, through forecasts and environmental scanning, changing conditions in order to make a soft landing. When Sunnyvale adopted its fiscal year 08/09 budget in June of 2008, staff had predicted an economic downturn, but had not yet seen any evidence in their revenues because city revenues typically lag the economy. By August 2008, the city began to see slight indications, but economic information (from constant scanning of the environment) led them to believe that things were going to be substantially worse. Hence, they began to plan for a serious fiscal challenge and were therefore better able to cope with the economic crisis that finally manifested. In 2004, Coral Springs recognized that politics in the state were headed toward major residential property tax reform, including austere restrictions on local tax autonomy. At that point, the city started making changes such as diversifying its tax base and streamlining operations to make sure its workforce didn't expand beyond the city's means. When reform eventually came in 2007, Coral Springs was prepared.

Few, however, predicted the full breadth and severity of the current economic downturn. When caught in a financial decline, resilient governments quickly recognize it and react by updating forecasts, modeling new scenarios to define the financial parameters within which they must develop strategies, continually monitoring the environment for change, and maintaining open communication with departments so they can take corrective action. Hanover County has found it particularly important to maintain open communication with the board. If news of failure is attenuated in an effort to reduce political fallout, the board will not fully appreciate the gravity of the situation, thereby lessening their support for retrenchment and recovery strategies, eventually making the situation even worse.

Financially resilient governments use long-term planning to enhance the credibility of the financial management system and promote open dialogue about financial condition. A projected imbalance isn't cause for recrimination – it is an opportunity to take preventative action to avoid crisis. Financially resilient governments are careful not to position forecasts as a "prediction" of future financial position, but rather as a tool to: 1) recognize longer-term issues that require a strategic approach; and 2) establish financial parameters within which service strategies must operate.

Resilient governments are also skilled at setting and managing to measurable financial goals. Communication of these goals (including deviations from planned performance) is essential for credibility and encouraging fact-based, data-driven financial decision making. For example, Hanover County's financial goals include protecting its AAA bond rating and getting through the financial downturn without layoffs – two very measurable goals, the importance of which are easy to communicate.

Flexibility. Be ready to change when plans aren't working. Don't expect stability.

- Regularly diagnose the strategic environment to know when flexibility may be required.
- Create financial models to show the impact of changes.
- Evolve and adapt the financial planning process itself.

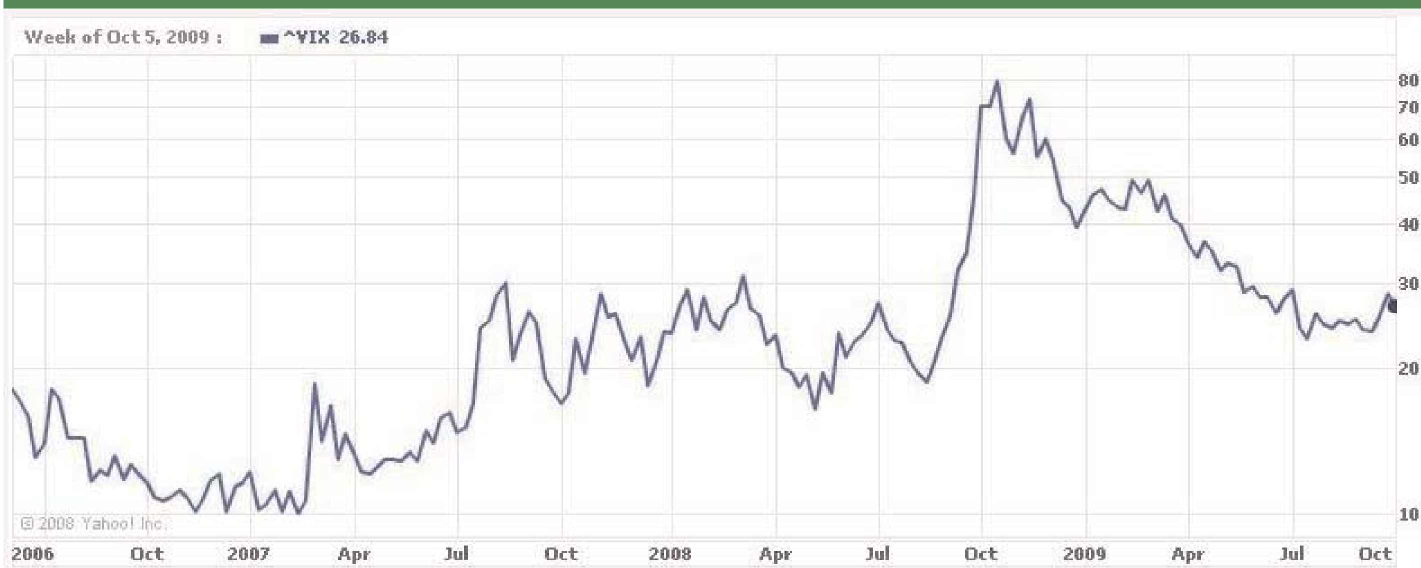
Financially resilient governments are constantly monitoring their environment and financial condition to see if financial strategies are working and to learn of conditions that might call for a change in approach. Regular plan updates are a formal tool all the GFOA's research subjects use, but they have also all developed an institutional habit of taking time to look beyond the day-to-day business of government for issues that could affect financial health. These "strategic diagnosis" exercises are important for strengthening this critical capacity.
Resilient governments also have financial modeling and scenario analysis capabilities to determine the impact of changes in assumptions and financial strategies. For example, Hanover County used its models to show how

deferred maintenance would affect the life cycle of capital assets. This allowed the county to make informed decisions on deferment, including the long-term cost required to make up the impact of these deferments later.

Finally, resilient governments evolve their planning process as needed to address new issues, accommodate new stakeholders, keep up with best practices, and otherwise adapt to the changing needs of the organization. For example, the diagram in Exhibit 1 was developed by San Clemente a few years ago as part of a redesign of its financial planning process to improve the elected officials' involvement in planning. San Clemente also designates a special "theme" for each planning cycle to capture the issues that are driving planning that year. For example, the theme for most recent planning cycle was "Fiscal Tune-Up," acknowledging the need to reaffirm fundamental good financial management practices in a time of financial pressure.

Exhibit 2: Don't Expect Stability

VIX is the ticker symbol for the Chicago Board Options Exchange Volatility Index, a popular measure of the implied volatility of S&P 500 index options. A high value corresponds to a more volatile market. Sometimes referred to as the "fear index," it represents one measure of the market's expectation of volatility over the next 30-day period.[5] Unsurprisingly the VIX reached all-time highs in the fall of 2008 and has been well above historical levels over the past 12 months.[6]



Foresight. Think and prepare.

- Develop effective forecasting techniques.
- Build capacity among staff and elected officials for strategic diagnosis.
- Complement financial planning with other long-term plans.

Financial forecasts are at the crux of foresight. Our research subjects suggest:

- Using forecasts to identify the parameters within which to develop and execute strategies, rather than to try to "predict" the future.
- Involve others in forecasting. Operating departments can improve the qualitative judgment applied to the forecast. Elected officials can review critical assumptions.
- Develop capacity for flexible scenario modeling to show the impact of different possible futures.

Regular review of the environment is essential for diagnosing strategic issues. Elected officials and executive management should be involved in strategic diagnosis to promote informed and realistic financial decision making. Coral Springs found that its strategic diagnosis helped officials and management accept that a return to the halcyon conditions of the early 2000s was unlikely and that the city should begin positioning itself early to operate effectively under new fiscal realities – this included opening union contracts, revising personnel schedules and deployment, and automating work processes.

Successful long-term financial planning builds interest in better long-term planning in other areas.

Other departments outside of finance often put a great deal of effort into their own long-term plans. These plans can be a source of foresight into financial condition. Resilient governments connect their long-term financial planning process to these other plans to increase the quality of their forecasting and strategic diagnosis. For example, a comprehensive land use plan might suggest long-range facility requirements.

Resilient governments have also found that successful long-term financial planning builds interest in better long-term planning in other areas. Mentor Public Schools, for instance, has seen improvement in its long-term plans and studies for capital, maintenance, technology, instruction, equipment replacement, and enrollment trending as a result of the interest in the long term generated by financial planning. These plans improve the quality of the forecast and help identify possible points of future fiscal failure.

Conclusion

Financial resiliency is essential to continuing a consistent program of public services despite the current volatile economic environment. A number of local governments from across the country have achieved financial resiliency and realized benefits such as AAA bond ratings and a soft landing in the current recession. Most importantly, though, these governments have been able to maintain the trust and confidence of their constituents and continue to create value for the public through government action.

Notes

[1] Jamais Cascio, "The Next Big Thing: Resilience," *Foreign Policy*, May/June 2009.
[2] "Net contributor" means that a constituent contributes more in tax revenues that are used in services.
[3] All GFOA best practices are available at www.gfoa.org.
[4] Jon Johnson and Chris Fabian, "Leading the Way to Fiscal Health," *Government Finance Review*, December 2008, pp. 16-26.
[5] Description of VIX taken from Wikipedia.
[6] Graph from Yahoo.com.

Shayne Kavanagh is the senior manager of research for GFOA. He has written GFOA publications including *Financing the Future: Long-Term Financial Planning for Local Government* and *Financial Policies: Design and Implementation*. Mr. Kavanagh has worked directly on a number of long-term financial planning projects and served as the project manager for projects at the City of Montclair, California; the City of Gresham, Oregon; the City of San Juan Capistrano, California; and Wayne County, Michigan. He has spoken on the topic of financial planning and policies at the California Society of Municipal Finance Officers, the New England States GFOA, the Michigan GFOA, the International City/County Management Association, National League of Cities, and the GFOA annual conference. Mr. Kavanagh has written articles on financial planning that have appeared in journals such as *Government Finance Review*, *Public Management*, and *School Business Affairs*. Prior to joining the GFOA, he was the assistant village manager for the Village of Palos Park, Illinois. Mr. Kavanagh has an MPA degree from Northern Illinois University.

For more information about the GFOA Research and Consulting Center, e-mail consulting@gfoa.org.

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City of Wauwatosa
Financial Resiliency Policy

Policy Objective

The City of Wauwatosa has a long history of strong financial practices reflected in its AAA bond rating. Despite a multiyear recession and state legislation that has severely limited its ability to increase property taxes, the City has continued to invest in its transportation, sewer, water, and parks infrastructure as well as in equipment and buildings. This accomplishment was made possible thanks to years of strong budgeting and financial practices under the guidance of current and past elected officials and staff. It also occurred due to consecutive years of above-average building activity while the City simultaneously implemented organizational changes to create operational efficiencies and resulting savings. The City has effectively managed compensation costs and, in addition, public-private collaborations have been prioritized resulting in both savings and in operational synergisms. The City also continues to invest in human capital by funding a performance pay system, providing annual cost of living increases, competitive benefits, and a robust employee development program.

However, the City still faces a myriad of financial challenges. These include a structural imbalance in forecasted revenues and expenditures due largely to revenue limitations including ongoing reductions to state and federal aid, caps on property tax levy increases, and limits on access to new revenue sources such as sales and income taxes. Collective bargaining for the Fire and Police Departments also limits flexibility to control expenditure growth. Of additional concern are unfunded liabilities including retiree health insurance and deferred infrastructure maintenance that must be addressed.

It is important that we prepare to not only overcome these challenges but develop an organization that can survive external shocks (like a severe economic downturn). Recent research by the Government Finance Officers Association describes such an organization as "resilient" and identifies eight essential characteristics of a resilient system[1].

1. **Diversity**: Avoid a single point of failure or reliance on a single solution.
2. **Redundancy**: Have more than one path of escape.
3. **Decentralization**: Centralized systems look strong, but when they fail, the failure is catastrophic.
4. **Transparency**: Don't hide your systems. Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.
5. **Collaboration**: Work together to become stronger.
6. **Fail Gracefully**: Be patient when honest efforts fail and strive to build in safeguards to limit the impact of those failures.
7. **Flexibility**: Be ready to change when plans aren't working. Don't count on stability.

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[1] Kavanagh, Shayne. Building a Financially Resilient Government through Long Term Financial Planning. The Government Finance Officers Association.

8. **Foresight**: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

This policy seeks to apply these eight characteristics to the City's financial systems in order to build a resilient organization. Much of what is included are existing financial practices the City already utilizes while also identifying areas for improvement.

It is intended that this policy will be reviewed annually with the presentation of the five-year forecast and updated every 5-years to reflect changing economic and political conditions.

Diversity: Avoid a single point of failure or reliance on a single solution.

1. Keep a multi-faceted perspective on financial health
    a. Don't' focus on just revenues and expenditures
        i. Remain aware of land use patterns, demographic trends and long term liabilities such as pensions and retiree health insurance.
        ii. Diversify the funds you maintain.
        iii. Enhance the City management team's credibility by insisting on transparency in financial philosophies and decisions
    b. Maintain a five-year forecast
        i. The base forecast must be policy neutral
            1. Base revenues and expenditures forecasts on historical trends or other reliable data
            2. Utilize actuarial recommendations to forecast health insurance claim inflation
            3. Do not assume changes in services, staffing, pay or benefits
            4. Include forecasted debt based on the 5-year capital plan plus an additional five years synchronized with inflation adjusted based on Engineering's "State of Good Repair"
            5. Assume agreed upon sewer and water rate increases based on capital spending
            6. Assume property tax increases equal to anticipated net new construction.
            7. Adjust for any future TIF closings.
            8. Produce a forecasted fund balance for every fund and identify where forecasted fund balances deviate from policy
        ii. Include policy options and maintain awareness of the impact of operational changes to balance the 5-year plan.
            1. Continue to aggressively pursue development with an annual goal of 1.5% net new construction (approximately $75 million of development) through 2020.
            2. Increase the property tax levy by the amount of the increase in property tax covered debt service based on the five-year capital budget. The City will strive to smooth debt service increases with a target of a 1% annual levy increase.
            3. As needed, increase the property tax levy an additional 1.5% for operating cost increases.

            a. In years where net new construction is less than 1.5%, utilize excess debt capacity to make up the difference.
            b. In years where net new construction is greater than 1.5% carryover the difference for us in the subsequent year.
        4. The employee cost of living adjustment (COLA) will be influenced by the Consumer Price Index (CPI) and the City's five-year forecast. Based on current inflation forecasts from the Congressional Budget Office and the Federal Reserve, it is anticipated the COLA will be between 1.0-2.0%. Recognizing there may be years the City can not afford to maintain a COLA equivalent to the CPI, it will strive to never let the cost of living adjustment (COLA) fall below 1%.
        5. Consider reducing the forecasted increase in health insurance through plan design changes, increasing employee cost/risk share, improved claims experience, and/or reducing the number of employees covered.
        6. Explore organizational restructuring such as alternate shift structures in the Police Patrol Division and staffing structure changes in the Fire Department in order to reduce staffing and/or overtime.
        7. Continue to implement operational changes to reduce costs or increase efficiency.

c. Proactively address all unfunded liabilities
    i. Infrastructure
        1. Maintain a "State of Good Repair" report to determine the appropriate level of spending necessary to avoid deferred maintenance
        2. Produce a five-year capital budget that achieves a minimum of 75% of the state of good repair spending over a five-year period
        3. Maintain road performance at XXX (TBD)
        4. Ensure sewer rates are sufficient to fund the state of good repair level of spending while maintaining a 1.1 coverage ratio
    ii. Other Post Employment Benefits
        1. Strive to eliminate retiree healthcare benefits from labor contracts
        2. Develop a strategy to mitigate the future impact of the City's retiree health care and sick leave pay-out obligations. Possible options include:
            a. Buy-out of the benefit from groups of employees
            b. Establishment of a Retiree Health Insurance Trust seeded with the surplus Health/Life fund balance and funded with budgetary health/life savings.

d. Maintain a competitive and efficient compensation program for employees
    i. Conduct a periodic review of the pay and benefit system to ensure the right pay and benefits at the right cost are being provided

2. Maintain a diversity of funds to reduce reliance on General Fund and potential single point of failure.
    a. The General Fund should never subsidize any of the other funds
    b. Internal service funds should be used for all business functions

   c. Each separate fund should maintain its own fund balance in accordance with a fund balance policy
   d. Within the Tax Increment Fund, annual cash flow analysis should be conducted to ensure that each TIF is self-sustainable. Per the TIF Policy, Municipal Revenue Obligations should be the preferred structure for TIF deals. When City financing is required, it should be on a reimbursement basis as late in the deal as possible and a 1.25 coverage ratio must be maintained.
   e. Maintain the vehicle replacement, building improvement and information system replacement funds. Depreciate all assets to continue to finance those funds. Add fire vehicles to vehicle replacement fund as possible.

3. Enlarge the base of informed constituents
   a. Continue to expand communication with constituents through social media and through activities like the Citizen's Academy.
   b. Consider adding an educational component to the City's website.

Redundancy: Have more than one path of escape.

1. Utilize designated fund balances for specific long-term investments
   a. Amortization Fund for general obligation debt coverage and capital investments
   b. Redevelopment Reserve for extra-ordinary economic development
2. Institutionalize financial planning through governance practices like financial policies. Financial policies are the cornerstone of redundancy because they preserve best practices despite turnover in elected officials and staff. Policies should include:
   a. Fund Balance
   b. Investment
   c. Fixed Asset
   d. Debt issuance
   e. General budgeting and accounting
   f. Economic Development Investment
3. Create reserves for specific purposes and record those purposes in a policy.
4. Continue to Encourage citizen involvement as this creates more grassroots support in the community
5. Pursue multiple strategies for long-term financial health
   a. Maintain an inventory of services that can be pursued in collaboration with other governments.
   b. Pursue in-sourcing opportunities where economical
   c. Encourage departments to pursue accredited status to insure the use of best practices.
   d. Conduct annual third party departmental reviews to identify efficiencies
   e. Maintain the LEAN program and initiatives
   f. Continue to aggressively manage health insurance
      i. On-site health clinic
      ii. Regular TPA review
      iii. Continued emphasis on Wellness

g. Conduct regular compensation system review to ensure system is market competitive. Maintain policy of control point representing current market median.

Decentralization: Centralized systems look strong, but when they fail, the failure is catastrophic.

1. Insist on Directors managing their cost and revenue structures.
    a. Departments are responsible for budgeting and monitoring all operating expenses and programmatic revenues. This includes understanding how the compensation system functions and the impacts of their operational decisions on those costs which represent over 75% of the City's General Fund budget.
    b. Break-out costs that departments can control. For example, worker compensation costs can be positively impacted by safety initiatives so Directors need to understand their share of the cost.
    c. Provide departments rewards and incentives to manage their budgets more efficiently
        i. Departments may keep 50% of any unbudgeted revenue so long as it is spent on one-time items (e.g. equipment, training, etc.)
        ii. Departments may carry-over 50% of any salary savings including overtime (not to exceed 1% of their salary budget) for one-time investments
        iii. $250,000 is set-aside annually for internal granting program
        iv. Departments may keep 50% of the amount they exceed any required budgetary reduction. That same amount can also be used towards a subsequent year's reduction.
    d. Identify and budget for any operating impact of capital improvements
2. Strive to decentralize the financial planning process.
    a. Engage departments in identifying issues, analyzing them, and developing strategies.
    b. Engage departments in financial modeling and forecasting.
    c. Develop an organization-wide strategic framework that departments can innovate within.
3. Strategic plan should be developed in the context of the Five-year forecast.

Transparency: Don't hide your systems. Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.

1. Promote transparency in key areas like goals and objectives, forecast assumptions, and reserve standards.
    a. Hold annual employee meetings to present financial health and forecast
2. Use full-cost (direct and indirect) accounting for programs.
3. Ensure departments have access to up-to-date financial information
    a. Provide departments live and easy-to-use budget to actual reports and forecasts

    b. Provide departments live and easy to access salary information by employee and cost center
4. Make sure everyone knows what the goals are and how they will be achieved.
5. The assumptions that drive revenue and expenditure trends should be available for review.
6. Reserve amounts and why they are needed should be explained.

Collaboration: Work together to become stronger.

1. Build elected officials' service priorities into the plan.
    a. Continue engagement of elected officials in strategic plan and budget
    b. Involve elected officials in evaluation criteria for budget prioritization
    c. Ensure that elected officials are in agreement with five-year forecast assumptions
2. Provide elected officials a role in that planning process – a role they can thrive in.
    a. Expectation is that elected officials set priorities and high-level policy guidance to staff
    b. Assist staff in pro-actively identifying critical issues
    c. Provide feedback to staff recommendations and solutions
3. Orient elected officials to the planning process.
    a. Create a financial policy compliance update
        i. Fund balance
        ii. Debt Policy
    b. Review planning calendar (five-year forecast, budget, strategic plan) annually
4. Establish and communicate key indicators to help elected officials stay abreast of financial condition.
    a. Annually present financial indicators review
    b. Quarterly General Fund Projection
    c. Annual TIF cash flow projections

Fail Gracefully: Be patient when honest efforts fail and strive to build in safeguards to limit the impact of those failures.

1. Recognize changing conditions to make a soft landing.
    a. Use five-year forecast process to highlight potential short and long term changes to revenues and expenditures
    b. Regularly evaluate accuracy of forecasts in order to identify problematic assumptions or structural imbalances.
2. Promote credibility and open dialogue to learn from and correct failure
    a. Always assume the forecast is wrong – the final number is not important but recognizing trends is. Identify issues that require a strategic approach and establishing financial parameters within which service strategies must operate
    b. Avoid blaming departments for budgeting and forecasting mistakes and work together to develop solutions
    c. Use long range planning to enhance the credibility of the financial management system and to promote dialogue.

    d. Strive to set, manage, and communicate measurable financial goals. Don't ignore performance deviations as this is essential for credibility and will encourage fact based decisions.

Flexibility: Be ready to change when plans aren't working. Don't count on stability.

1. Regularly diagnose the strategic environment to know when flexibility may be required.
    a. Constantly monitor the environment and financial condition to see if financial strategies are working or whether changes are needed.
    b. Plan to implement strategic diagnosis exercises to strengthen your critical capacity.
    c. Use the 10-10-10 decision making tool for significant decision: What will the impact of this decision be in 10 days, 10 months and 10 years?
    d. Maintain an awareness of financial best practices.
2. Create financial models to show the impact of changes.
    a. Be prepared to explain the financial impact for every council recommendation
3. Evolve and adapt the financial planning process itself.

Foresight: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

1. Develop effective forecasting techniques.
    a. Remember that forecasting is different than predicting.
    b. Involve others in forecasting
    c. Develop the capacity for flexible scenario modeling to show the impact of possible different futures.
2. Build capacity among staff and elected officials for strategic diagnosis.
3. Complement financial planning with other long-term plans.
    a. Capital budget
    b. State of Good repair
    c. Comprehensive Plan
    d. Neighborhood/Business District Plans (i.e. Mayfair Corridor, North Ave. Village)
    e. Departmental Strategic and Operating Plans

City of Wauwatosa
Financial Resiliency Policy

Policy Objective

The City of Wauwatosa has a long history of strong financial practices reflected in its healthy financial condition, fund balance reserves and AAA bond rating. Despite economic challenges and state legislation that has severely limited its ability to increase property taxes, the City has continued to invest in its transportation, sewer, water, and parks infrastructure as well as in equipment and buildings. This accomplishment was made possible thanks to years of strong budgeting and financial practices under the guidance of current and past elected officials and staff. It also occurred due to a number of years of above-average building activity while the City simultaneously implemented organizational changes to create operational efficiencies and resulting savings. The City has effectively managed compensation costs and, in addition, public-private collaborations have been prioritized resulting in both savings and in operational synergisms. The City also continues to invest in human capital by funding a performance pay system, providing annual cost of living increases, competitive benefits, and a robust employee development program.

However, the City still faces a myriad of financial challenges. These include a structural imbalance in forecasted revenues and expenditures due largely to caps on property tax levy increases, and limits on access to new revenue sources such as sales and income taxes which do not provide the City with any flexibility to deal with inflation, fire and police collective bargaining commitments and demand for new programs. Of additional concern are unfunded liabilities including retiree health insurance and deferred infrastructure maintenance that must be addressed.

It is important that we prepare to not only overcome these challenges but develop an organization that can survive external shocks (like a severe economic downturn). Recent research by the Government Finance Officers Association describes such an organization as "resilient" and identifies eight essential characteristics of a resilient system[1].

1. **Diversity**: Avoid a single point of failure or reliance on a single solution.
2. **Redundancy**: Have more than one path of escape.
3. **Decentralization**: Centralized systems look strong, but when they fail, the failure is catastrophic.
4. **Transparency**: Don't hide your systems. Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.
5. **Collaboration**: Work together to become stronger.
6. **Fail Gracefully**: Be patient when honest efforts fail and strive to build in safeguards to limit the impact of those failures.

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[1] Kavanagh, Shayne. Building a Financially Resilient Government through Long Term Financial Planning. The Government Finance Officers Association.

7. **Flexibility**: Be ready to change when plans aren't working. Don't count on stability.
8. **Foresight**: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

This policy seeks to apply these eight characteristics to the City's financial systems in order to build a resilient organization. Much of what is included are existing financial practices the City already utilizes while also identifying areas for improvement.

It is intended that this policy will be reviewed annually with the presentation of the five-year forecast and updated every 5-years by the Financial Affairs Committee of the Common Council to reflect changing economic and political conditions.

Diversity: Avoid a single point of failure or reliance on a single solution.

1. Keep a multi-faceted perspective on financial health
    a. Don't focus on just revenues and expenditures
        i. Remain aware of land use patterns, demographic trends and long term liabilities such as pensions and retiree health insurance.
        ii. Diversify the funds you maintain.
        iii. Enhance the City management team's credibility by insisting on transparency in financial policies and decisions
    b. Continue to aggressively pursue development with an annual goal of 1.5% net new construction (approximately $120 million of development in 2023 dollars) through 2028.
    c. Proactively address all unfunded liabilities
        i. Infrastructure
            1. Maintain a "State of Good Repair" report to determine the appropriate level of spending necessary to avoid deferred maintenance
            2. Produce a five-year capital budget that achieves a minimum of 75% of the state of good repair spending over a five-year period
            3. Ensure sewer and water rates are sufficient to fund the state of good repair level of spending while maintaining a 1.10 coverage ratio (i.e. net operating income is 110% of annual debt service debt service
            4. Achieve 40% cash financing of the capital budget by 2030.
            5. Evaluate, consider and propose alternate funding sources, such as a City Transportation Utility
        ii. Other Post-Employment Benefits
            1. Develop a strategy to mitigate the future impact of the City's retiree health care and sick leave pay-out obligations.
    d. Maintain a competitive and efficient compensation program for employees
        i. Conduct a periodic review of the pay and benefit system to ensure the right pay and benefits at the right cost are being provided

2. Maintain a diversity of funds to reduce reliance on General Fund and potential single point of failure.
    a. The General Fund should never subsidize any of the other funds
    b. Internal service funds should be used for all business functions

c. Each separate fund should maintain its own fund balance in accordance with a fund balance policy
d. Within the Tax Increment Fund, annual cash flow analysis should be conducted to ensure that each TIF is self-sustainable. Per the TIF Policy, Municipal Revenue Obligations (MRO's) should be the preferred structure for TIF deals. When City financing is required, it should be on a reimbursement basis as late in the deal as possible and a 1.25 coverage ratio must be maintained.
e. Maintain the vehicle replacement, building improvement and information system replacement funds. Depreciate all assets to continue to finance those funds. Add fire vehicles to vehicle replacement fund when possible.

Redundancy: Have more than one path of escape.

1. Utilize designated fund balances for specific long-term investments
   a. Amortization Fund for general obligation debt coverage and capital investments
   b. Redevelopment Reserve for extra-ordinary economic development
   c. Affordable Housing Reserve in the Community Development Authority Fund
2. Institutionalize financial planning through governance practices like financial policies. Financial policies are the cornerstone of redundancy because they preserve best practices despite turnover in elected officials and staff. Policies should include:
   a. Fund Balance
   b. Investment
   c. Fixed Asset
   d. Debt issuance
   e. General budgeting and accounting
   f. Economic Development Investment
3. Create reserves for specific purposes and record those purposes in a policy.
4. Continue to encourage citizen involvement as this creates more grassroots support in the community
5. Pursue multiple strategies to limit expenditure growth for long-term financial health
   a. Maintain an inventory of services that can be pursued in collaboration with other governments.
   b. Pursue in-sourcing opportunities where economical
   c. Actively identify and achieve process and organizational efficiencies with an emphasis on leveraging the Tyler MUNIS Enterprise Resource Planning system and other technology.
   d. Continue to effectively manage health insurance

Decentralization: Centralized systems look strong, but when they fail, the failure is catastrophic.

1. Provide Directors the tools and support to manage their cost and revenue structures.
   a. Departments are responsible for budgeting and monitoring all operating expenses and programmatic revenues. This includes understanding how the compensation

system functions and the impacts of their operational decisions on those costs which represent a vast majority of the City's General Fund budget.

    b. Break-out costs that departments can control and identify strategies to incentivize departments to control those costs. For example, worker compensation costs can be positively impacted by safety initiatives so Directors need to understand their share of the cost.
    c. Provide departments rewards and incentives to manage their budgets more efficiently
        i. Departments may keep 50% of any unbudgeted revenue so long as it is spent on one-time items (e.g. equipment, training, etc.)
        ii. Departments may carry-over 50% of any salary savings including overtime (not to exceed 1% of their salary budget) for one-time investments
        iii. When possible the City will budget or carryover funds that will be$ set-aside annually for the internal granting program
        iv. Departments may keep 50% of the amount they exceed any required budgetary reduction. That same amount can also be used towards a subsequent year's reduction.
    d. Identify and budget for any operating impact of capital improvements
2. Strive to decentralize the financial planning process.
    a. Engage departments in identifying issues, analyzing them, and developing strategies.
    b. Engage departments in financial modeling and forecasting.
    c. Continue to support and enhance an organizational culture that encourages departments to be innovative and collaborative in addressing financial challenges.
3. Strategic plan should be developed in the context of the Five-year forecast.

Transparency: Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.

1. Promote transparency in financial management and decision-making.
2. Inform and educate the public, elected officials and employees on the City's budget and financial condition through all communication channels.
    a. All budget documents and audited financial statements are posted timely online
3. Use full-cost (direct and indirect) accounting for programs.
4. Ensure departments have access to up-to-date financial information by leveraging the Tyler MUNIS financial system and other technology.
5. Make sure everyone understands the strategic plan goals and what achievement looks like via a defined communications plan.
6. Reserve amounts and why they are needed should be explained.
7. Conduct a financial policy audit to determine policies that need to be updated or created.

Collaboration: Work together to become stronger.

1. Elected officials set priorities and high-level policy collaboratively with staff

    a. Elected officials participate in development and monitoring of the strategic plan which is used to guide budgetary decisions.
    b. Elected officials participate in developing evaluation criteria for budget prioritization that is tied to the strategic plan
2. Ensure that elected officials are in agreement with five-year forecast assumptions
3. Elected officials assist staff in pro-actively identifying critical issues provide feedback to staff recommendations and solutions
4. Orient elected officials to the financial planning and management process.
    a. Regularly review key financial policies including:
        i. Fund Balance
        ii. Debt
        iii. Investment
        iv. Financial Resiliency
        v. Budget administration
    b. Create a financial policy compliance update
    c. Review planning calendar (five-year forecast, budget, strategic plan) annually
5. Establish and communicate key indicators to help elected officials and public stay abreast of financial condition.
    a. Annually present financial indicators review
    b. Quarterly General Fund Projection
    c. Annual TIF cash flow projections
    d. Investment report
6. City management and elected officials promote a culture of collaboration among City departments

Fail Gracefully: Strive to build in safeguards to limit the impact of failures and be patient when honest efforts fail.

1. Recognize changing conditions to minimize organizational turbulence.
    a. Use five-year forecast process to highlight potential short and long-term changes to revenues and expenditures
    b. Regularly evaluate accuracy of forecasts in order to identify problematic assumptions or structural imbalances.
    c. Prepare for financial challenges so changes can be made that minimize the impact on the community and employees.
2. Promote credibility and open dialogue to obtain buy-in, learn from and correct failure and encourage people to communicate ideas as well as concerns
    a. Appreciate that the forecast is wrong – the final number is not important but recognizing trends is. Identify issues that require a strategic approach and establishing financial parameters within which service strategies must operate
    b. Avoid blaming departments for budgeting and forecasting mistakes and work together to develop mutually agreed to solutions
    c. Use long range planning to enhance the credibility of the financial management system and to promote participation.

d. Strive to set, manage, and communicate measurable financial goals. Don't ignore performance deviations as this is essential for credibility and will encourage fact-based decisions.

Flexibility: Be ready to change when plans aren't working. Don't count on stability.

1. Have mechanisms in place to monitor the environment and financial condition to see if financial strategies are working or whether changes are needed.

2. Use financial forecasting to prepare for different financial scenarios

3. Keep up-to-date of financial best practices and technology changes.

4. Leverage fund balances to support flexibility in responding to changing conditions. For example, using the Fleet reserve fund balance to weather periods of high fuel prices.

5. Leave space in the budget for good things to happen.

Foresight: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

1. Maintain a five-year forecast
   a. The base forecast must be policy neutral
      i. Base revenues and expenditures forecasts on historical trends or other reliable data such as the Congressional Budget Office
      ii. Utilize actuarial recommendations to forecast health insurance claim inflation
      iii. Do not assume changes in services, staffing, pay or benefits
      iv. Include forecasted debt based on the 5-year capital plan plus an additional five years synchronized with inflation adjusted based on Engineering's "State of Good Repair"
      v. Assume agreed upon sewer and water rate increases based on capital spending
      vi. Assume property tax increases equal to anticipated net new construction.
      vii. Adjust for any future TIF closings.
      viii. Produce a forecasted fund balance for every fund and identify where forecasted fund balances deviate from policy
   b. Include policy options and maintain awareness of the impact of operational changes to balance the 5-year plan.
      i. Increase the property tax levy by the amount of the increase in property tax covered debt service based on the five-year capital budget. The City will strive to smooth debt service increases with a target of a 0.5-1.0% annual levy increase. This annual increase is necessary to maintain existing infrastructure
      ii. As needed, increase the property tax levy an additional 1.5% for operating cost increases. This increase is necessary to maintain quality city services.

        1. In years where net new construction is less than 1.5%, utilize excess debt capacity to make up the difference.
        2. In years where net new construction is greater than 1.5% carryover the difference for use in the subsequent year.
    iii. The employee cost of living adjustment (COLA) will be influenced by the Consumer Price Index (CPI) and the City's five-year forecast.
    iv. Evaluate strategies to reduce the forecasted increase in health insurance

2. Involve employees from throughout the organization in forecasting
3. Complement financial planning with other long-term plans.
    a. Strategic Plan
    b. Capital Improvement Plan
    c. State of Good Repair
    d. Comprehensive Plan
    e. Neighborhood/Business District Plans
    f. Departmental strategic and operating plans
    g. Housing Study
    h. Community survey
4. Identify and fully fund operational impacts of capital assets
5. Begin communicating and planning for the eventual exhaustion of the City's excess levy limit capacity in approximately 2028-2030.

City of Wauwatosa
Financial Resiliency Policy

Policy Objective

The City of Wauwatosa has a long history of strong financial practices reflected in its healthy financial condition, fund balance reserves and AAA bond rating. Despite ~~a multiyear recession~~economic challenges and state legislation that has severely limited its ability to increase property taxes, the City has continued to invest in its transportation, sewer, water, and parks infrastructure as well as in equipment and buildings. This accomplishment was made possible thanks to years of strong budgeting and financial practices under the guidance of current and past elected officials and staff. It also occurred due to ~~consecutive~~ a number of years of above-average building activity while the City simultaneously implemented organizational changes to create operational efficiencies and resulting savings. The City has effectively managed compensation costs and, in addition, public-private collaborations have been prioritized resulting in both savings and in operational synergisms. The City also continues to invest in human capital by funding a performance pay system, providing annual cost of living increases, competitive benefits, and a robust employee development program.

However, the City still faces a myriad of financial challenges. These include a structural imbalance in forecasted revenues and expenditures due largely to ~~revenue limitations including ongoing reductions to state and federal aid,~~ caps on property tax levy increases, and limits on access to new revenue sources such as sales and income taxes which do not provide the City with any flexibility to deal with inflation, ~~. C~~fire and police collective bargaining ~~for the Fire and Police Departments also limits flexibility to control expenditure growth.~~commitments and demand for new programs. Of additional concern are unfunded liabilities including retiree health insurance and deferred infrastructure maintenance that must be addressed.

It is important that we prepare to not only overcome these challenges but develop an organization that can survive external shocks (like a severe economic downturn). Recent research by the Government Finance Officers Association describes such an organization as "resilient" and identifies eight essential characteristics of a resilient system[1].

1. **Diversity**: Avoid a single point of failure or reliance on a single solution.
2. **Redundancy**: Have more than one path of escape.
3. **Decentralization**: Centralized systems look strong, but when they fail, the failure is catastrophic.
4. **Transparency**: Don't hide your systems. Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.
5. **Collaboration**: Work together to become stronger.

[1] Kavanagh, Shayne. Building a Financially Resilient Government through Long Term Financial Planning. The Government Finance Officers Association.

6. **Fail Gracefully**: Be patient when honest efforts fail and strive to build in safeguards to limit the impact of those failures.
7. **Flexibility**: Be ready to change when plans aren't working. Don't count on stability.
8. **Foresight**: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

This policy seeks to apply these eight characteristics to the City's financial systems in order to build a resilient organization. Much of what is included are existing financial practices the City already utilizes while also identifying areas for improvement.

It is intended that this policy will be reviewed annually with the presentation of the five-year forecast and updated every 5-years by the Financial Affairs Committee of the Common Council to reflect changing economic and political conditions.

Diversity: Avoid a single point of failure or reliance on a single solution.

1. Keep a multi-faceted perspective on financial health
   a. Don't focus on just revenues and expenditures
      i. Remain aware of land use patterns, demographic trends and long term liabilities such as pensions and retiree health insurance.
      ii. Diversify the funds you maintain.
      iii. Enhance the City management team's credibility by insisting on transparency in financial ~~philosophies~~ policies and decisions
   b. Continue to aggressively pursue development with an annual goal of 1.5% net new construction (approximately $120 million of development in 2023 dollars) through 2028.
   ~~b. Maintain a five year forecast~~
      ~~i. The base forecast must be policy neutral~~
         ~~1. Base revenues and expenditures forecasts on historical trends or other reliable data~~
         ~~2. Utilize actuarial recommendations to forecast health insurance claim inflation~~
         ~~3. Do not assume changes in services, staffing, pay or benefits~~
         ~~4. Include forecasted debt based on the 5-year capital plan plus an additional five years synchronized with inflation adjusted based on Engineering's "State of Good Repair"~~
         ~~5. Assume agreed upon sewer and water rate increases based on capital spending~~
         ~~6. Assume property tax increases equal to anticipated net new construction.~~
         ~~7. Adjust for any future TIF closings.~~
         ~~8. Produce a forecasted fund balance for every fund and identify where forecasted fund balances deviate from policy~~
      ~~ii. Include policy options and maintain awareness of the impact of operational changes to balance the 5-year plan.~~
         ~~1. Continue to aggressively pursue development with an annual goal of 1.5% net new construction (approximately $75 million of development) through 2020.~~

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~~2. Increase the property tax levy by the amount of the increase in property tax covered debt service based on the five-year capital budget. The City will strive to smooth debt service increases with a target of a 1% annual levy increase.~~

~~3. As needed, increase the property tax levy an additional 1.5% for operating cost increases.~~

~~a. In years where net new construction is less than 1.5%, utilize excess debt capacity to make up the difference.~~

~~b. In years where net new construction is greater than 1.5% carryover the difference for us in the subsequent year.~~

~~4. The employee cost of living adjustment (COLA) will be influenced by the Consumer Price Index (CPI) and the City's five-year forecast. Based on current inflation forecasts from the Congressional Budget Office and the Federal Reserve, it is anticipated the COLA will be between 1.0-2.0%. Recognizing there may be years the City can not afford to maintain a COLA equivalent to the CPI, it will strive to never let the cost of living adjustment (COLA) fall below 1%.~~

~~5. Consider reducing the forecasted increase in health insurance through plan design changes, increasing employee cost/risk share, improved claims experience, and/or reducing the number of employees covered.~~

~~6. Explore organizational restructuring such as alternate shift structures in the Police Patrol Division and staffing structure changes in the Fire Department in order to reduce staffing and/or overtime.~~

~~7. Continue to implement operational changes to reduce costs or increase efficiency.~~

Commented [JR1]: Still important. Deleted because covered below

c. Proactively address all unfunded liabilities

i. Infrastructure

1. Maintain a "State of Good Repair" report to determine the appropriate level of spending necessary to avoid deferred maintenance

2. Produce a five-year capital budget that achieves a minimum of 75% of the state of good repair spending over a five-year period

~~3. Maintain road performance at XXX (TBD)~~

3. Ensure sewer and water rates are sufficient to fund the state of good repair level of spending while maintaining a 1.10 coverage ratio (i.e. net operating income is 110% of annual debt service debt service

4. Achieve 40% cash financing of the capital budget by 2030.

~~4.~~5. Evaluate, consider and propose alternate funding sources, such as a City Transportation Utility

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ii. Other Post Employment Benefits

~~1. Strive to eliminate retiree healthcare benefits from labor contracts~~

~~2.~~ Develop a strategy to mitigate the future impact of the City's retiree health care and sick leave pay-out obligations. ~~Possible options include:~~

~~a. Buy-out of the benefit from groups of employees~~

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~~b.~~1. ~~Establishment of a Retiree Health Insurance Trust seeded with the surplus Health/Life fund balance and funded with budgetary health/life savings.~~

d. Maintain a competitive and efficient compensation program for employees
   i. Conduct a periodic review of the pay and benefit system to ensure the right pay and benefits at the right cost are being provided

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2. Maintain a diversity of funds to reduce reliance on General Fund and potential single point of failure.
   a. The General Fund should never subsidize any of the other funds
   b. Internal service funds should be used for all business functions
   c. Each separate fund should maintain its own fund balance in accordance with a fund balance policy
   d. Within the Tax Increment Fund, annual cash flow analysis should be conducted to ensure that each TIF is self-sustainable. Per the TIF Policy, Municipal Revenue Obligations (MRO's) should be the preferred structure for TIF deals. When City financing is required, it should be on a reimbursement basis as late in the deal as possible and a 1.25 coverage ratio must be maintained.
   e. Maintain the vehicle replacement, building improvement and information system replacement funds. Depreciate all assets to continue to finance those funds. Add fire vehicles to vehicle replacement fund ~~as~~ when possible.

~~3. Enlarge the base of informed constituents~~
   ~~a. Continue to expand communication with constituents through social media and through activities like the Citizen's Academy.~~
   ~~b. Consider adding an educational component to the City's website.~~

Redundancy: Have more than one path of escape.

1. Utilize designated fund balances for specific long-term investments
   a. Amortization Fund for general obligation debt coverage and capital investments
   b. Redevelopment Reserve for extra-ordinary economic development
   ~~b.~~c. Affordable Housing Reserve in the Community Development Authority Fund
2. Institutionalize financial planning through governance practices like financial policies. Financial policies are the cornerstone of redundancy because they preserve best practices despite turnover in elected officials and staff. Policies should include:
   a. Fund Balance
   b. Investment
   c. Fixed Asset
   d. Debt issuance
   e. General budgeting and accounting
   f. Economic Development Investment
3. Create reserves for specific purposes and record those purposes in a policy.
4. Continue to ~~e~~Encourage citizen involvement as this creates more grassroots support in the community
5. Pursue multiple strategies to limit expenditure growth for long-term financial health

a. Maintain an inventory of services that can be pursued in collaboration with other governments.
b. Pursue in-sourcing opportunities where economical
~~c. Encourage departments to pursue accredited status to insure the use of best practices.~~
~~d.~~c. ~~Conduct annual third party departmental reviews to~~Actively identify and achieve process and organizational efficiencies with an emphasis on leveraging the Tyler MUNIS Enterprise Resource Planning system and other technology.
~~e. Maintain the LEAN program and initiatives~~
~~f.~~d. Continue to ~~aggressively~~ effectively manage health insurance
~~i. On-site health clinic~~
~~ii. Regular TPA review~~
~~iii. Continued emphasis on Wellness~~
~~g. Conduct regular compensation system review to ensure system is market competitive. Maintain policy of control point representing current market median.~~

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Decentralization: Centralized systems look strong, but when they fail, the failure is catastrophic.

1. ~~Insist~~ Provide~~on~~ Directors the tools and support to manag~~eing~~ their cost and revenue structures.
   a. Departments are responsible for budgeting and monitoring all operating expenses and programmatic revenues. This includes understanding how the compensation system functions and the impacts of their operational decisions on those costs which represent ~~over 75%~~ a vast majority of the City's General Fund budget.
   b. Break-out costs that departments can control and identify strategies to incentivize departments to control those costs. For example, worker compensation costs can be positively impacted by safety initiatives so Directors need to understand their share of the cost.
   c. Provide departments rewards and incentives to manage their budgets more efficiently
      i. Departments may keep 50% of any unbudgeted revenue so long as it is spent on one-time items (e.g. equipment, training, etc.)
      ii. Departments may carry-over 50% of any salary savings including overtime (not to exceed 1% of their salary budget) for one-time investments
      iii. When possible the City will budget or carryover funds that will be$~~250,000 is~~ set-aside annually for the internal granting program
      iv. Departments may keep 50% of the amount they exceed any required budgetary reduction. That same amount can also be used towards a subsequent year's reduction.
   d. Identify and budget for any operating impact of capital improvements
2. Strive to decentralize the financial planning process.
   a. Engage departments in identifying issues, analyzing them, and developing strategies.
   b. Engage departments in financial modeling and forecasting.

c. ~~Develop an organization-wide strategic framework that departments can innovate within.~~Continue to support and enhance an organizational culture that encourages departments to be innovative and collaborative in addressing financial challenges.

3. Strategic plan should be developed in the context of the Five-year forecast.

Transparency: ~~Don't hide your systems.~~ Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.

1. Promote transparency in ~~key areas like goals and objectives, forecast assumptions, and reserve standards.~~financial management and decision-making.
   a. ~~Hold annual employee meetings to present financial health and forecast~~
2. Inform and educate the public, elected officials and employees on the City's budget and financial condition through all communication channels.
   a. All budget documents and audited financial statements are posted timely online

~~2.~~3. Use full-cost (direct and indirect) accounting for programs.

~~3.~~4. Ensure departments have access to up-to-date financial information by leveraging the Tyler MUNIS financial system and other technology.
   a. ~~Provide departments live and easy-to-use budget to actual reports and forecasts~~
   b. ~~Provide departments live and easy to access salary information by employee and cost center~~

~~4.~~5. Make sure everyone ~~knows~~ understands~~what~~ the strategic plan goals ~~are~~ and ~~how they will be achieved~~what achievement looks like via a defined communications plan.

~~5. The assumptions that drive revenue and expenditure trends should be available for review.~~

~~6. Reserve amounts and why they are needed should be explained.~~

6. Reserve amounts and why they are needed should be explained.
7. Conduct a financial policy audit to determine policies that need to be updated or created.

Collaboration: Work together to become stronger.

1. Elected officials set priorities and high-level policy collaboratively with staff
   ~~Build elected officials' service priorities into the plan.~~
   ~~1.~~a. Elected officials participate in development and monitoring of the strategic plan which is used to guide budgetary decisions.
   a. ~~Continue engagement of elected officials in strategic plan and budget~~
   b. ~~Involve e~~Elected officials participate in developing evaluation criteria for budget prioritization that is tied to the strategic plan
2. Ensure that elected officials are in agreement with five-year forecast assumptions
3. Elected officials ~~A~~assist staff in pro-actively identifying critical issues provide feedback to staff recommendations and solutions

~~Provide feedback to staff recommendations and solutions~~

~~c.~~a.

~~2. Provide elected officials a role in that planning process – a role they can thrive in.~~
   ~~a. Expectation is that elected officials set priorities and high-level policy guidance to staff~~

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~~b.~~a. ~~Assist staff in pro-actively identifying critical issues~~

~~c.~~a. ~~Provide feedback to staff recommendations and solutions~~

~~3.~~4. Orient elected officials to the financial planning and management process.

a. Regularly review key financial policies including:

i. Fund Balance

ii. Debt

iii. Investment

iv. Financial Resiliency

v. Budget administration

~~a.~~b. Create a financial policy compliance update

~~i. Fund balance~~

~~ii. Debt Policy~~

~~b.~~c. Review planning calendar (five-year forecast, budget, strategic plan) annually

~~4.~~5. Establish and communicate key indicators to help elected officials and public stay abreast of financial condition.

a. Annually present financial indicators review

b. Quarterly General Fund Projection

c. Annual TIF cash flow projections

d. Investment report

~~c.~~6. City management and elected officials promote a culture of collaboration among City departments

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Fail Gracefully: Strive to build in safeguards to limit the impact of failures and ~~B~~be patient when honest efforts fail ~~and strive to build in safeguards to limit the impact of those failures~~.

1. Recognize changing conditions ~~to make a soft landing~~to minimize organizational turbulence.
   a. Use five-year forecast process to highlight potential short and long-~~-~~term changes to revenues and expenditures
   b. Regularly evaluate accuracy of forecasts in order to identify problematic assumptions or structural imbalances.
   ~~b.~~c. Prepare for financial challenges so changes can be made that minimize the impact on the community and employees.
2. Promote credibility and open dialogue to obtain buy-in, learn from and correct failure and encourage people to communicate ideas as well as concerns
   a. ~~Always assume the~~Appreciate that the forecast is wrong – the final number is not important but recognizing trends is. Identify issues that require a strategic approach and establishing financial parameters within which service strategies must operate
   b. Avoid blaming departments for budgeting and forecasting mistakes and work together to develop mutually agreed to solutions
   c. Use long range planning to enhance the credibility of the financial management system and to promote ~~dialogue~~participation.
   d. Strive to set, manage, and communicate measurable financial goals. Don't ignore performance deviations as this is essential for credibility and will encourage fact-based decisions.

Flexibility: Be ready to change when plans aren't working. Don't count on stability.

~~1. Regularly diagnose the strategic environment to know when flexibility may be required.~~

~~a.~~1. ~~Constantly~~ Have mechanisms in place to monitor the environment and financial condition to see if financial strategies are working or whether changes are needed.

~~b. Plan to implement strategic diagnosis exercises to strengthen your critical capacity.~~

~~c.~~a. ~~Use the 10-10-10 decision making tool for significant decision: What will the impact of this decision be in 10 days, 10 months and 10 years~~?

~~d.~~2. ~~Maintain an awareness~~Keep up-to-date of financial best practices and technology changes.

~~2. Create financial models to show the impact of changes.~~

~~a. Be prepared to explain the financial impact for every council recommendation~~

~~3. Evolve and adapt the financial planning process itself.~~

3. Leverage fund balances to support flexibility in responding to changing conditions. For example, using the Fleet reserve fund balance to weather periods of high fuel prices.

4. Leave space in the budget for good things to happen.

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Foresight: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

1. Maintain a five-year forecast
   a. The base forecast must be policy neutral
      i. Base revenues and expenditures forecasts on historical trends or other reliable data
      ii. Utilize actuarial recommendations to forecast health insurance claim inflation
      iii. Do not assume changes in services, staffing, pay or benefits
      iv. Include forecasted debt based on the 5-year capital plan plus an additional five years synchronized with inflation adjusted based on Engineering's "State of Good Repair"
      v. Assume agreed upon sewer and water rate increases based on capital spending
      vi. Assume property tax increases equal to anticipated net new construction.
      vii. Adjust for any future TIF closings.
      viii. Produce a forecasted fund balance for every fund and identify where forecasted fund balances deviate from policy
   b. Include policy options and maintain awareness of the impact of operational changes to balance the 5-year plan.
      i. Increase the property tax levy by the amount of the increase in property tax covered debt service based on the five-year capital budget. The City will strive to smooth debt service increases with a target of a 0.5-1.0% annual levy increase. This annual increase is necessary to maintain existing infrastructure

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ii. As needed, increase the property tax levy an additional 1.5% for operating cost increases. This increase is necessary to maintain quality city services.

1. In years where net new construction is less than 1.5%, utilize excess debt capacity to make up the difference.
2. In years where net new construction is greater than 1.5% carryover the difference for use in the subsequent year.

iii. The employee cost of living adjustment (COLA) will be influenced by the Consumer Price Index (CPI) and the City's five-year forecast.

iv. Evaluate strategies to reduce the forecasted increase in health insurance

~~1. Develop effective forecasting techniques.~~

~~a. Remember that forecasting is different than predicting.~~

~~b.~~2. Involve ~~others~~ employees from throughout the organization in forecasting

~~c. Develop the capacity for flexible scenario modeling to show the impact of possible different futures.~~

~~2. Build capacity among staff and elected officials for strategic diagnosis.~~

3. Complement financial planning with other long-term plans.

a. Strategic Plan
~~a.~~b. Capital ~~budget~~Improvement Plan
~~b.~~c. State of Good ~~r~~Repair
~~c.~~d. Comprehensive Plan
~~d.~~e. Neighborhood/Business District Plans ~~(i.e. Mayfair Corridor, North Ave. Village)~~
f. Departmental ~~s~~Strategic and ~~O~~operating p~~P~~lans
g. Housing Study
h. Community survey

4. Identify and fully fund operational impacts of capital assets

~~e.~~5. Begin communicating and planning for the eventual exhaustion of the City's excess levy limit capacity in approximately 2028-2030.

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